Winter 2017

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CHARTERED ACCOUNTANTS

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Financial news that's relevant to you.

INTRODUCTION

This newsletter includes a summary of the relevant tax changes set out in the November 2017 Budget. We have also added our usual selection of tax and business updates to keep you abreast of recent changes in legislation.

As we move into ever more detailed negotiations with our present EU partners we will need to multi-task: keep our eye on the longer-term outlook and make the most of more immediate opportunities to maximise our business and personal cash-flows.

Hopefully, you will find this newsletter a useful resource. As always, if you are unsure of the impact of any of the issues raised, please call for more information.

BUDGET SUMMARY

Business

Disincorporation tax relief to end

Disincorporation relief is designed to make it easier for anyone running a private limited company to transfer the business to a sole trader basis, or a partnership. The relief is most suited to those running a small business who would prefer to continue without the burden of running a limited company.

Disincorporation relief is effectively a form of roll-over or deferral relief that is available when a company changes from a private limited company into an unincorporated form. The company must transfer its business to some or all of its shareholders.

In effect, the qualifying assets (land and goodwill) are transferred below market value and the shareholders then accept the reduced transfer cost for all future disposals. The company also avoids a corporation tax charge on the disposal of the assets.

Disincorporation relief was originally introduced for a fixed five-year period from April 2013. There were some expectations that the relief might be extended but the government confirmed, as part of the autumn Budget announcements, that the current relief will end on 31 March 2018. The relief has not been widely used as there is a £100,000 limit on the total market value of qualifying assets and there can also be income tax charges for the shareholder. However, if this relief is relevant, now is the time to use it.

Dividend tax changes

It has been confirmed that the reduction in the dividend allowance from £5,000 to £2,000 will come in to effect from April 2018. The £5,000 dividend allowance was introduced in April 2016 and replaced the old dividend tax credit.

Since the dividend allowance was introduced, the government has had concerns that this allowance was an overly generous tax-break and the allowance will now be cut to £2,000 from April 2018.

The tax rate for dividends received of more than the dividend tax allowance has not changed and will be taxed at the following rates based on the recipient's highest rate of income tax:

- 7.5% for basic rate tax payers
- 32.5% for higher rate tax payers, and
- 38.1% for additional rate tax payers.

We would recommend that any shareholder directors that can benefit from the higher dividend allowance, carefully examine their dividend payments. This needs to be done before the end of the current tax year to fully utilise the £5,000 dividend allowance before it reduces from the 6 April 2018.

Minimum wage increases

The Chancellor used his autumn Budget speech to confirm that increased national minimum wage (NMW) and national living wage (NLW) rates are due to come into effect on 1 April 2018.

The NLW first came into effect on 1 April 2016 and is the minimum hourly rate that must be paid to those aged 25 or over. From 1 April 2018, the NLW will increase by 33p to £7.83. This represents an increase of 4.4%.

The hourly rate of the NMW will increase to £7.38 (a rise of 33p) for adults 21-24 year olds. The rates for 18-20 year olds will increase to £5.90 (a rise of 30p) and the rate for workers above the school leaving age but under 18 will increase to £4.20 (a rise of 15p). The NMW rate for apprentices increases by 20p to £3.70.

The new rates mirror the recommendations made by the Low Pay Commission (LPC) which were accepted in full by the government. The independent LPC was established following the National Minimum Wage Act 1998 to advise the government on the NMW. It is made up of representatives from all sides of industry.

These increases will come into effect from April 2018, subject to Parliamentary approval.

VAT registration threshold

The taxable turnover threshold, that determines whether businesses should be registered for VAT, will be frozen at £85,000 for 2 years from 1 April 2018. The taxable turnover threshold that determines whether businesses can apply for deregistration will also be frozen at the current rate of £83,000 for the same period.

In the Budget, the Chancellor reiterated that the UK's VAT registration limit is the highest in the EU. By comparison, the threshold in Germany is about £15,600 and in Spain there is no threshold. The ability to allow small businesses to stay outside the VAT system has many benefits, but there are concerns regarding the gap between businesses that must charge VAT and those that do not.

The Office of Tax Simplification recently published a report and made recommendations about the current level of the VAT threshold. The government will consult further on making changes during the 2-year period that the registration limit is frozen until 31 March 2020. It is likely that we might see downward changes to the VAT registration limits in the future.

Personal

Marriage allowance claim changes

The marriage allowance (MA) is to be increased to £1,185 from April 2018 (2017-18: £1,150). This is the maximum amount of any unused personal tax allowance that you can transfer to your husband, wife or civil partner. This will reduce their tax by up to £230 in the current tax year, 2017-18, and by up to £237 next year.

The person receiving the transfer of allowances can only benefit if they don't pay more than the basic 20% rate of income tax. Couples that have not yet claimed the allowance can backdate their claim as far back as 6 April 2015 if they meet the eligibility requirements. Couples have up to four years to claim backdated annual allowances.

It was also announced that the government will allow claims for the marriage allowance on behalf of deceased spouses and civil partners where all other conditions were met. These claims can also be backdated for up to 4 years with effect from 29 November 2017.

Budget changes for tax-free investments

The cash ISA limits will remain unchanged at £20,000 from April 2018. However, the annual subscription limit for Junior ISAs and Child Trust Funds will increase in line with the CPI to £4,260 (currently £4,128). The Junior ISAs were introduced to encourage children to save money and provide an alternative to the Child Trust Funds (CTF) which are no longer available to new applicants. The returns from Junior ISAs and existing CTFs are tax-free and are usually locked until the child reaches 18.

Capital gains tax changes

There were no changes announced to the basic CGT rates for 2018-19 as part of the Budget measures. The CGT on the disposal of chargeable assets, apart from residential property, remains at:

- 10% on disposals that form part of the basic rate band
- 20% on disposals that form part of the higher rate band

The higher rates (18% and 28%) continue to apply to disposals of residential property subject to this tax and carried interest. Gains on a disposal of a qualifying private home will continue to be exempt.

The annual exempt amount for 2018-19 will be £11,700 (2017-18: £11,300).

Stamp duty land tax for first time buyers

As the Chancellor, Philip Hammond alluded to in his Budget speech there had been much speculation in the press that he would do something to alleviate the stamp duty land tax (SDLT) burden for first time buyers.

However, he exceeded expectations by introducing a temporary freeze in SDLT for some first-time buyers. He announced the abolition of SDLT for all first-time buyers making a purchase of up to £300,000. He also added a little extra cheer by extending the relief to the first £300,000 of the purchase price on properties valued at up to £500,000. This is an effective reduction of £5,000 in SDLT for a first-time buyer of a house valued at between £300,000 and £500,000.

This measure is intended to help young people buy their first home and to help revive the home-owning dream in Britain after years of decline. The relief was introduced with immediate effect from the 22 November 2017 Budget date.

There is no SDLT relief available for first-time buyers spending more than £500,000 on a property. The Treasury estimates that this measure will save £1,660 for the average first-time buyer property purchase and that 80% of people buying their first home will pay no SDLT at all.

The measure applies to first-time buyers in England, Wales and Northern Ireland. It remains to be seen if Scotland will introduce similar measures and if the Welsh Assembly will mirror these changes when the new land transaction tax (LTT), which will replace the SDLT, is launched in Wales on 1 April 2018.

The Chancellor also pledged another £10 billion for the Help to Buy equity loan scheme to help those saving for a deposit to buy a house.

Personal tax allowances 2018-19

The changes to the personal tax allowance and the higher rate income tax thresholds for 2018-19 are as follows:

Personal Allowance: £11,850 for 2018-19 (an increase from the current £11,500)

Basic rate limit: Increased to £34,500 for 2018-19 (from £33,500)

As a result, the higher rate threshold will be £46,350 in 2018-19 as compared to £45,000 currently.

The Scottish Parliament sets the basic rate limit for Scotland which means that Scottish higher rate taxpayers may pay more tax in 2018-19.

It has also been confirmed that there will be no increase in the starting rate for savings income band which will remain at £5,000 during 2018-19. This rate applies across the UK.

BUSINESS

Tax time again

Most self-employed business owners, and other taxpayers who are required to file a self-assessment tax return, will look forward to the 31 January each year with the same apprehension that many of us feel before the next dental appointment.

The 31 January 2018, is the electronic filing deadline for the 2016-17 tax returns, and is also the date by which any outstanding tax and NIC needs to be settled for that year plus a payment on account for 2017-18.

The balance of tax and NIC due for 2016-17 is pretty much a fait accompli. It will be decided by your actual earnings and allowances for that year. However, the payment on account for 2017-18 (due on the same date) will be based, initially, as 50% of your actual liability for the previous year, 2016-17.

Which is why it's worth taking a moment to consider what your financial results may be for 2017-18. If you estimate that your self-employed profits, or other taxable earnings will be lower during 2017-18 (as compared to 2016-17) then you can elect to recalculate the payments on account for 2017-18.

We should always be on the lookout for ways to protect our hard-earned cash resources. Accordingly, undertaking this simple review may help to take the sting out of the January tax payment.

You will also be glad to know, that if the results of this exercise show that your profits or taxable income have increased during 2017-18 (compared to 2016-17) it is not necessary to increase your payments on account for 2017-18. However, self-assessment taxpayers in this position should be aware that any shortfall between payments on account made and the actual liability for 2017-18 will still be payable, albeit at a later date, 31 January 2019.

If you feel that your earnings will be lower for 2017-18 we can help you crunch the numbers to see if a valid election to reduce your tax payments next year is a viable option. Every little helps.

Timing is everything

We are often confronted with situations where a client has committed to a course of action and we are required to comment on the tax consequences. Occasionally, all is well, the outcome works commercially and has not rocked the tax boat; but often, the consequences are less attractive.

Consider a self-employed business owner, John, that purchased a commercial vehicle in the first month of his trading year, April 2017, for £20,000.

Based on his accounts, his taxable profits for 2016-17 were £70,000; £27,000 of this income was taxed at 40%.

A brief discussion revealed that his profits for the next year would be much reduced as he was taking time out to

visit family in New Zealand. His best estimate was profit of no more than £20,000 for 2017-18.

As the van was purchased by John during 2017-18, the option to claim a £20,000 Annual Investment Allowance would have reduced his income for that year to zero – on the face of it, an attractive result. Unfortunately, this would have wasted John's personal tax allowance of £11,500 for 2017-18, and even if he reduced his claim for the van, it would take some time for the balance of expenditure to create a reduction in taxes due.

The best strategy for John, would have been to buy the van the previous month, March 2017. He could then have written off the £20,000 costs against his profits of £70,000 and reduced his higher rate income tax and class 4 NIC payments by a princely £8,400.

We repeat our plea. Would readers considering a significant investment for their business please contact us during the planning stage, before signing on the dotted line. From a tax perspective, timing really is everything.

Tell HMRC if…

You are required to inform HMRC if your personal circumstances change. The following is a short list of the most common reasons for doing so:

Your employer or pension provider tells HMRC when:

- you start or finish your job
- there's a change in the money you earn from your job or get from your pension

But you must tell HMRC about any other changes, for example when you start or stop getting:

- income from a new source, such as money from self-employment or rent from property
- taxable benefits, such as State Pension, Jobseeker's Allowance and Carer's Allowance
- benefits from your job, such as a company car
- income above your Personal Allowance
- money over £85,000 from self-employment (you must register for VAT over this amount)
- lump sums from selling things you pay capital gains tax on, such as shares or property that's not your main home
- income from property, money or shares you inherit, such as dividends from shares or rent from property

Business rates reliefs

There are many reliefs available that may help you reduce your annual rates bill, but it is important to note that the reliefs are handled differently in the regions: England, Scotland, Wales and Northern Ireland.

In the first instance you should contact your local rates authority to see what reliefs are available.

The following reliefs need to be applied for:

- Small business rates relief
- Rural rates relief
- Charitable rate relief
- Hardship relief

Your council should automatically apply the following reliefs:

- Exempted buildings and empty buildings relief
- Transitional relief if your rates change by more than a certain amount at revaluation
- Relief for pubs

You will need to contact your council to identify any regional variations in reliefs available.

You may also get a temporary reduction in your business rates if your premises are affected by severe local disruption (like flooding, building or roadworks).

Tax and asset disposals

Many assets that you buy to use in your business (commercial vehicles, plant, other equipment, office furniture etc) can be written off against your trading profits when calculating the amount of tax your business needs to pay.

When you subsequently dispose of these assets, the amount you receive, or in some cases its market value, will need to be considered.

You dispose of an asset if you:

- sell it
- give it away as a gift or transferring it to someone else
- swap it for something else
- get compensation for it - like an insurance pay-out if it's been lost or destroyed
- keep it, but no longer use it for your business
- start to use it outside your business

The amount of the disposal is usually how much you sold it for. Alternatively, you would be required to use the item's market value if you:

- didn't sell it, e.g. you gave it away or you kept it but stopped using it for your business
- sold it for less than it was worth to someone connected to you

Connected people include your:

- husband, wife or civil partner and their relatives
- relatives and their husbands, wives or civil partners
- business partners and their husbands, wives, civil partners and relatives

Your company is connected with another company if you:

- control them both
- are connected with a person who controls the other company
- are part of a group that controls both companies

In most cases, if you sell or discontinue to use an asset in your business, and you have claimed tax relief when you first acquired the asset, then the disposal will likely increase your tax liabilities. How it impacts future tax payments will depend on many variables, some of which are set out above. We recommend that you take professional advice before assets are sold or otherwise disposed of such that any tax consequences can be considered.

Tax gap narrowing

The UK tax gap fell to 6% in 2015-16 due in part to government cracks down on avoidance, evasion and non-compliance.

The tax gap is the difference between the taxes due and those collected by HMRC and is a measure of the government's effectiveness at collecting tax.

According to the government, the UK is a world leader on tax compliance, with one of the lowest tax gaps in the world. It sets an international example on tax transparency, being the only country to measure and publish tax gaps every year covering both direct and indirect taxes.

The tax gap fall follows the introduction of 75 measures over the last 7 years to reduce tax avoidance, evasion and non-compliance, including:

- cracking down on avoidance by multinationals to ensure companies pay the right amount of tax under UK law
- introducing tough new criminal offences that make it easier to prosecute both evaders and companies that fail to prevent evasion, as well as significantly increasing penalties
- introducing a new penalty for those who enable the use of tax avoidance schemes that are later defeated by HMRC
- investing £800 million in HMRC's compliance operations, which are expected to bring in an additional £7.2 billion in tax by 2020 to 2021

Since 2010, HMRC has secured almost £160 billion in additional tax revenue because of actions to tackle tax evasion, tax avoidance, and non-compliance, including £2.8 billion from offshore tax evaders.

What is less certain, is the effects of the black economy on the loss of tax revenues.

PERSONAL

The end of gazumping?

As part of a continued drive to make the housing market work better, the government is consulting with the home buying industry, including estate agents, solicitors and mortgage lenders. They want to address issues across the whole sector, from ways to tackle gazumping and reduce time wasting to increase commitment to a sale.

Their consultation will be looking at:

- Gazumping – Buyers are concerned about gazumping, with sellers accepting a higher offer from a new buyer.
- Building trust & confidence - Mistrust between parties is one of the biggest issues faced, the government will look at schemes including 'lock-in agreements'. Although 1 million homes are bought and sold in England each year, around a quarter of sales fall through and hundreds of millions of pounds are wasted. Building confidence

  in the process, increasing confidence in the housing chain, is a prime consideration.
- Informing customers - How to provide better guidance for buyers and sellers, by encouraging them to gather more information in advance so homes are 'sale ready'.
- Innovation – You can now search for a home online, but the buying process is too slow, costing time and money so we're looking for innovative digital solutions including making more data available online.

Communities Secretary Sajid Javid said:

We want to help everyone have a good quality home they can afford, and improving the process of buying and selling is part of delivering that. Buying a home is one of life's largest investments, so if it goes wrong it can be costly. That's why we're determined to act to make the process cheaper, faster and less stressful.

This can help save people money and time so they can focus on what matters – finding their dream home.

Research recently published, sampling more than 2,000 people who have bought or sold a home, shows that some of the key issues are as follows:

- of those that experienced delays, 69% of sellers and 62% of buyers reported stress and worry because of the delay
- 46% of sellers had concerns about a buyer changing their mind after making an offer
- 24% of sellers would use a different estate agent if they were to go through the process again; and
- 32% of sellers and 28% of buyers were dissatisfied with the other party's solicitor

At this stage any changes are speculative, but improvements to the present system seem to be overdue. We will report back when the conclusions reached by this consultation are published.

MISCELLANEOUS

Selling personal possessions

You may have to pay capital gains tax (CGT) if you dispose of a personal asset for more than £6,000. Personal assets could include:

- Jewellery
- Paintings
- Antiques
- Coins and stamps
- And sets of things, chess sets, matching vases etc.

You don't usually need to pay tax on gifts to your husband, wife, civil partner or a charity, and you won't pay CGT on:

- your car - unless you've used it for business
- anything with a limited lifespan, e.g. clocks - unless used for business

You will be exempt from CGT on the first £6,000 of your share if you own a possession with another person.

FINANCIAL CALENDAR

December 2017

30 Last day to submit 2016/17 tax return online to have unpaid tax of up to £17,000 collected through the 2018/19 PAYE code. The amount of debt that can be coded out in a year ranges from £3,000 to £17,000 based on a graduated scale.

January 2018

14 Due date for CT61 return and CT payment for quarter to 31 December 2017.

31 Submit 2016/17 Self Assessment return online. Pay balance of 2016/17 Income Tax and CGT plus first payment on account for 2017/18.

February 2018

2 Submit employer forms P46 (car) for quarter to 5 January 2018.

March 2018

31 Last minute planning for 2017/18 tax year. Make sure to use any CGT and IHT annual allowances and exemptions.

April 2018

5 Last day of tax year (6 April 2018, first day of new tax year).

14 Due date for CT61 return and CT payment for quarter to 31 March 2018.

May 2018

3 Submit employer forms P46 (car) for quarter to 5 April 2018.

31 Last day to issue 2017/18 P60s to employees.

July 2018

5 Final date to agree 2017/18 PAYE Settlement Agreements (PSA).

6 Last date for returns of expenses and benefits (forms P11D, P9D and P11D(b)) for 2017/18 to reach HMRC. Relevant employees to receive copies of forms P11D and P9D.

6 Last date to submit annual returns for employee share schemes and employment-related securities for 2017/18 (forms 34, 35, 39, 40 and 42).

14 Due date for CT61 return and CT payment for quarter to 30 June 2018.

22 Class 1A NICs for 2017/18 due (19th if paid by cheque).

31 Due date for second payment on account of 2017/18 Income Tax and Class 4 NICs.

31 Last day to pay 2016/17 tax to avoid second automatic 5% surcharge (unless late payment agreed with HMRC).

August 2018

2 Submit employer forms P46 (car) for quarter to 5 July 2018

October 2018

5 Deadline to notify HMRC of chargeability to Income Tax or CGT for 2017/18.

14 Due date for CT61 return and CT payment for quarter to 30 September 2018.

31 Deadline to submit 2017/18 Self Assessment tax return if filed on paper.

November 2018

2 Submit employer forms P46 (car) for quarter to 5 October 2018.

Every month:

1 Annual Corporation Tax due for companies with a year ending nine months and a day earlier, e.g. tax due 1 January 2018 for year ending 31 March 2017.

14 Quarterly instalment of Corporation Tax due for large companies (depending on accounting year end).

19 Pay PAYE/NIC and CIS deductions for period ending 5th of the month if not paying electronically. Submit CIS contractors' monthly return.

22 PAYE/NIC and CIS deductions paid electronically should have cleared into HMRC bank account.

30/31 Submit CT600 for a year ending 12 months earlier. Last day to amend CT600 for a year ending 24 months earlier.

If the due date for payment falls on a weekend or Bank Holiday, payment must be made by the previous working day. Electronic payments sent using the Faster Payments Service (FPS) are able to clear into HMRC's account on a non banking day – a Saturday, Sunday and most Bank Holidays.

File accounts with Companies House for private companies with a year ending nine months earlier and for public companies with a year ending six months earlier.

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