Spring 2017

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Financial news that's relevant to you.

INTRODUCTION

Now that the last March budget has been delivered, we can comment with some certainty regarding tax changes for the year ahead. We have included a brief summary of some of the more impactful tax changes announced in this newsletter.

The cost and funding of the exit from the EU remains a continuing unknown, and we will likely see further uncertainty until negotiations are completed.

As always, we will endeavour to keep you informed. Clients that have particular concerns on any of the topics raised in this newsletter, please call for advice. This is not a good time for burying our heads in the sand.

PRACTICE NEWS

Tax Gap

Through increased powers HMRC has closed the tax gap to its lowest level ever at 6.5%. As the gap closes make sure you are protected from the cost of an HMRC investigation. Contact us today to find out how we can help.

BUDGET SUMMARY

Spring Budget announcements - personal

Pundits are mixed in their interpretation of the prospects for the UK economy as we approach the formal Brexit disengagement. They are keen to see encouragement for industry to invest and export rather than more of the same debt fuelled consumer expenditure. Has Philip Hammond succeeded in meeting these demands, and will he be able to bank any hard-won savings for this financial year?

Our summary of a selection of specific tax changes and other budget announcements for 2017-18 and future years follow.

Personal Tax allowance

The personal allowances for 2017-18 is £11,500 (2016-17: £11,000).

Transferrable allowances

The maximum amount of free personal allowance that can be transferred between spouses is increased to £1,150 in 2017-18. Couples can only make a claim if one partner has spare personal tax allowance and the other is a basic rate tax payer.

Income Tax rate bands

The levels for 2017-18 are:

- For 2017-18 - £45,000 (the UK apart from Scotland)
- For 2017-18 - £43,000 (Scotland)

If your income before allowances exceeds these amounts you will be paying 40% Income Tax on the excess (this assumes that you are only entitled to the basic personal allowance).

The threshold at which the 45% rate starts is unchanged at £150,000.

For yet another year there were no changes to the basic Income Tax rate (20%), the higher rate (40%) and the additional rate (45%).

Dividend allowance to be reduced

From 6 April 2018, the tax-free dividend allowance of £5,000 is to be reduced to £2,000. Director shareholders of small companies that have adopted the strategy of minimising salary and maximising dividends will likely pay more Income Tax on their dividend income because of this change.

Capital Gains Tax (CGT)

There are no changes to the basic CGT rates for 2017-18. 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%) will continue to apply to disposals of residential property subject to this tax and carried interest. Gains on a disposal of your home will continue to be exempt. The annual exempt amount for 2017-18 is £11,300 (2016-17: £11,100).

Money Purchase Allowance reduced to £4,000 from £10,000

This will restrict the amount of tax relieved contributions that can be made by an individual, into a money purchase arrangement, who has accessed their pension savings from April 2017.

Reminder for non-doms to be bought into the IHT net

A reminder, that from April 2017, Inheritance Tax will be charged on all UK residential property even when indirectly held by a non-domiciled person through an off-shore structure.

Excise duties

Duty on wine, beer, spirits and alcohol will increase in line with the Retail Prices Index from 13 March 2017. These measures will typically add 2p to the price of a pint of beer, 1p to the price of a pint of cider, 36p to a bottle of whisky and 10p to a bottle of wine.

Tobacco duty rates

Changes to excise duties mean that a pack of twenty cigarettes will increase by an average of 35p, an additional 17p per 10 grams of cigars, and a 35-gram pouch of tobacco by 42p.

Fuel duty

There will be no increase in fuel duties. At the end of 2017-18 this will be the 7th year fuel duty has been frozen.

Spring Budget announcements - savings

New National Savings investment clarified

From April 2017, individuals aged 16 years or older will be able to invest in the new NS & I Investment Bond. It will be available for one year from April 2017. Minimum deposit is £100, maximum deposit allowed £3,000. The rate of interest applied is 2.2%.

Lifetime ISA previously announced

From April 2017, any person aged from 18 to 40 will be able to save into a new Lifetime ISA until the age of 50.

Up to £4,000 can be saved each year and savers will receive a government bonus of 25% – that is a bonus of up to £1,000 a year.

Some or all of the money can be used to buy a first home, or it can be kept until age 60.

Accounts will be limited to one per person rather than one per home, so two first time buyers can both receive a bonus when buying together. If a saver has a Help to Buy ISA it can be transferred into the Lifetime ISA in 2017, or savers can continue saving into both, but it will only be possible to use the bonus from one to buy a house.

After your 60th birthday you can take out all the savings tax-free. You can withdraw the money at any time before you turn 60, but you will lose the government bonus (and any interest or growth on this). You will also have to pay a 25% charge.

ISA limit from April 2017

The ISA savings limit for 2017-18 is confirmed as £20,000.

Spring Budget announcements - business

Corporation Tax rate

The main rate of Corporation Tax from 1 April 2017 will be reduced to 19%. A further reduction has been announced to 17% from 1 April 2020.

NIC increases for the self-employed

To narrow the perceived imbalance in NIC charges for the employed and self-employed, Philip Hammond announced increases in the self-employed Class 4 NIC contributions.

The increases are:

- From April 2018, an increase from 9% to 10%, and
- From April 2019, a further increase from 10% to 11%.

The earlier increase is timed to coincide with the cessation of Class 2 contributions.

Business rates increases

In response to the negative publicity regarding increases in business rates in England, particularly for retailers, the Chancellor has stepped in with help for smaller businesses.

There are three areas of relief announced:

1. Small businesses that find they are losing Small Business Rates Relief from April 2017, will have any annual rates increase capped at the higher of

£600 or the transitional relief cap.
2. Local authorities will be funded to provide an element of discretionary relief, and
3. Public houses with a rateable value of up to £100,000 will benefit from a fixed £1,000 business rate discount – subject to State Aid limits if multiple properties are owned. This discount is available for one year from April 2017.

Local authorities will be fully compensated for any loss of income because of these measures.

Making Tax Digital

The Chancellor announced a one year deferral from Making Tax Digital for Business for unincorporated businesses and landlords with turnovers below the VAT threshold. This means that businesses, self-employed people and landlords with income of less than the VAT threshold will not have to start quarterly reporting until 2019.

Changes to trading and property income allowances

The two previously announced £1,000 tax-free allowances for small scale trading or letting will still be introduced from April 2017, but will now include restrictions if the income or rents are generated by dealings with companies or partnerships of which the recipient is a participator or partner.

Loss relief reform

Legislation is to be introduced to reform the rules governing corporate losses carried forwards from earlier periods. The changes will:

- Allow more flexibility by relaxing the way companies can use carried forward losses from 1 April 2017.
- Restrict the set-off of losses such that profits cannot be reduced by more than 50%. This restriction will apply to companies or groups with profits of more than £5m.

VAT registration and deregistration limits

From 1 April 2017:

- Registration threshold increased to £85,000
- Deregistration threshold increased to £83,000

Readers who would like more information on any of the issues raised, please call.

BUSINESS

Business rates upheaval

There has been much controversy recently regarding the business rates increases for smaller businesses, particularly High Street retailers.

You can check your current valuation online at GOV.UK and go to Correct Your Business Rates.

Certain businesses may also qualify for one of a number of reliefs. The amount you can claim will depend on your business location and the size of premises you occupy. To enquire, contact the Valuation Office Agency or

your local assessor in Scotland.

Changes in car tax from April 2017

Drivers will need to take care if they buy a new car after 1 April 2017. The following are the published changes we can expect:

The rates explained

Vehicle tax for the first year will be based on CO_2 emissions.

After the first year, the amount of tax that needs to be paid will depend on the type of vehicle. The rates will be:

- £140 a year for petrol or diesel vehicles
- £130 a year for alternative fuel vehicles (hybrids, bioethanol and LPG)
- £0 a year for vehicles with zero CO_2 emissions

New vehicles with a list price of more than £40,000

If a vehicle has a list price (the published price before any discounts) of more than £40,000, the rate of tax is based on CO_2 for the first year.

After the first year, the rate depends on the type of vehicle (petrol, diesel, alternative fuel or zero emissions) and an additional rate of £310 a year for the next 5 years.

After those 5 years, the vehicle will then be taxed at one of the standard rates (£140, £130, or £0, depending on vehicle type).

The changes won't affect vehicles purchased before 1 April 2017, but for those considering a higher value purchase of more than £40,000, this may be an incentive to update your vehicle before the end of March 2017.

New search engine agreement

The UK Intellectual Property Office (IPO) has helped broker a landmark agreement which will see search engines and the creative industries work

together to stop consumers being led to copyright infringing websites.

Representatives from the creative industries, leading UK search engines, and the IPO developed a Voluntary Code of Practice dedicated to the removal of links to infringing content from the first page of search results.

The Code, agreed on 9 February 2017, will come into force immediately, and sets targets for reducing the visibility of infringing content in search results by 1 June 2017.

Minister of State, Jo Johnson MP will oversee the implementation of this Code of Practice, and the IPO will work with all parties to evaluate progress.

Jo Johnson, Minister of State for Universities, Science, Research and Innovation, said:

Search engines play a vital role in helping consumers discover content online. Their relationship with our world leading creative industries needs to be collaborative. Consumers are increasingly heading online for music, films, e-books, and a wide variety of other content. It is essential that they are presented with links to legitimate websites and services, not provided with links to pirate sites.

Could this be the forerunner to agreements to restrict the options given to consumers using internet search engines on other contentious issues?

Dormant companies

Shareholders and officers of dormant companies still have filing obligations. In particular:

- The company will still be required to prepare and file accounts with Companies House. The format of the accounts will depend on any assets held by the company.
- The company will still need to file an annual confirmation statement, that replaced the old-style annual return, with Companies House.
- Unless HMRC are formally notified that a company is dormant, no longer trading, it will still have to submit an annual tax return.

Shareholders should also be wary of changes in the status of their shareholding in a dormant company. A dormant company's shares may potentially lose their status as business assets. This could affect future Capital Gains Tax and Inheritance Tax liabilities.

VAT & DUTIES

VAT late registration penalties

If you miss the VAT registration trigger for your business, the point at which you are required to register, HMRC will penalise you.

The penalty is worked out as a percentage of the VAT due. The published penalty rates are as follows if you registered:

- not more than 9 months late: 5%
- more than 9 months late but no more than 18 months late: 10%
- more than 18 months late: 15%

There is a minimum penalty of £50.

PERSONAL

Saving for your first home?

A reminder that there are two tax-free savings options available if you are saving to buy your first home from April 2017: a Lifetime ISA or a Help to Buy ISA.

The new Lifetime ISA savings, and the government bonus, can be used towards buying your first home, worth up to £450,000, without incurring a withdrawal charge. You must be buying your home with a mortgage.

You must use a conveyancer or solicitor to act for you in the purchase, and the funds must be paid direct to them by your Lifetime ISA provider.

If you are buying with another first time buyer, and you each have a Llifetime ISA, you can both use your government bonus. You can also buy a house with someone who isn't a first time buyer but they will not be able to use their Lifetime ISA without incurring a withdrawal charge.

Your Lifetime ISA must have been opened for at least 12 months before you can withdraw funds from it to buy your first home.

If you have a Help to Buy ISA, you can transfer those savings into your Lifetime ISA or you can continue to save into both – but you will only be able to use the government bonus from one to buy your first home.

Pay As You Go (PAYG)

One of the more unlikely changes being considered by HMRC is the ability to make payments to HMRC on a voluntary basis during the tax year in which liabilities arise. This Pay As You Go process has been subject to much discussion in recent weeks – it is being incorporated into the regulations for the new Making Tax Digital initiative.

In particular, HMRC has confirmed:

- Tax payers would decide how often and how much they wanted to pay. These might be: regular set amounts; one-off payments; payments based on estimates of liability.
- There would be no such thing as a missed voluntary payment, so a tax payer would not be committed to, or chased for, payments.
- Voluntary payments would be repayable on request, but only until the credits were allocated to a due liability (subject to possible parameters for debts becoming due shortly).
- Voluntary payments might need special indicators, depending on system functionality, and would be paid and repaid electronically.
- Voluntary payments would sit on a customer's account as a credit, allocated against liabilities as they became due, using appropriation rules set by HMRC, with unused credits carried forward for use against future liabilities.

In effect, PAYG would act as a savings process to meet future tax liabilities. It is difficult to see a widespread take up amongst small businesses as they would be transferring valuable cash resources to HMRC at the expense of their own working capital needs.

Tax and your home

If you use your home for business purposes, rent out parts of your home whilst you are still in residence or if you rent out your home while you are resident elsewhere, you may need to consider the tax consequences.

Use of home for business purposes

If the amount of space you use is limited to say one room, and if there is a duality of use (for example you may have a home office in the corner of a spare bedroom or your office may double as a hobbies room), then you should be able to charge your business a nominal amount to cover the "running costs" of the space occupied. Your claim will need to be restricted on a time basis to disallow the private use proportion.

Claims that fit into this category should cause you no personal tax issues as long as they are based on a realistic apportionment of actual costs and are discounted for private use.

It will also be unlikely that you will suffer any charge to Capital Gains Tax when you sell your home.

Renting a room

Since 6 April 2016, you can let out a room or rooms in your house as furnished accommodation (not an office) and as long as the annual rents received do not exceed £7,500 per year (prior to 6 April 2016 the annual limit was £4,250) you will have no Income Tax to pay. If the rent is more than the limit, then only the excess is taxable. The "normal" basis (rents less allowable costs) can be claimed if this produces a better result.

If two persons are entitled to share the rental income, the above annual tax-free limits are halved.

Longer term lets when you are not in residence

If you let out your home, for example if you work abroad for a period of time, you will be subject to Income Tax on your rental profits.

When you subsequently sell your home there may also be Capital Gains Tax considerations. When you sell, a proportion of any gain that relates to the period (or periods) of letting may be taxable.

However, provided the property was your home at some time, you can claim reliefs, including principal Private Residence relief for the time it was your main residence, plus the last 18 months of ownership. Also, there may be some "lettings relief" relating to periods your home was let as above.

Homeowners' Private Residence relief (for CGT purposes) is worth protecting. If you are considering any financial transaction concerning your home that you are concerned may have Income Tax or CGT implications, please call. It is better to sound out professional advice before the event…

EMPLOYMENT & PAYROLL

Tax-free mileage claims

Employees who use their own vehicle on business journeys for their employer are entitled to receive a mileage payment, tax-free, up to certain limits. The current rates are:

- Cars and vans: 45p per mile for the first 10,000 business miles in a tax year, and then 25p per mile above 10,000 miles.
- Motorcycles: a flat rate of 24p per mile.
- Cycles: a flat rate of 20p per mile.

Employers can pay up to these rates and the employee claiming the expenses will pay no tax on claims received.

What if your employer pays less than these rates per mile?

In this case, employees can claim the difference on their tax return or by notifying HMRC. For example, if Joe uses his own car during 2016-17 for business purposes – drives a total of 2,000 miles and receives 20p per mile - his employer would have paid him £400. Joe could have received £900 (2,000 x 45p), so he can claim the unpaid £500 as an additional tax relief. This is called Mileage Allowance Relief.

What if your employer pays more than the published rates per mile?

The excess paid, above the published rates, will be treated as earnings and taxed accordingly.

MISCELLANEOUS

Increases to statutory payments confirmed

The Social Security Benefits Up-rating Order 2017 has been published in draft form and laid before Parliament and it confirms that:

The standard weekly rates of statutory maternity pay (SMP), statutory adoption pay (SAP), statutory paternity pay (SPP) and statutory shared parental pay (ShPP) will increase from £139.58 to £140.98 from 2 April 2017.

The weekly rate of statutory sick pay (SSP) will increase from £88.45 to £89.35 from 6 April 2017.

In addition, the Social Security (Contributions) (Rates, Limits and Thresholds Amendments and National Insurance Funds Payments) Regulations 2017 have been published in draft form and they confirm that the earnings threshold, below which employees are not entitled to SMP, SAP, SPP, ShPP and SSP, will increase from £112.00 to £113.00 per week from 6 April 2017.

FINANCIAL CALENDAR

April 2017

5 Last day of tax year (6 April 2017, first day of new tax year).

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

May 2017

3 Submit employer forms P46 (car) for quarter to 5 April 2017.

31 Last day to issue 2016/17 P60s to employees.

July 2017

5 Final date to agree 2016/17 PAYE Settlement Agreements (PSA).

6 Last date for returns of expenses and benefits (forms P11D, P9D and P11D(b)) for 2016/17 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 2016/17 (forms 34, 35, 39, 40 and 42).

14 Due date for CT61 return and CT payment for quarter to 30 June 2017.

22 Class 1A NICs for 2016/17 due (19th if paid by cheque).

31 Due date for second payment on account of 2016/17 Income Tax and Class 4 NICs.

31 Last day to pay 2015/16 tax to avoid second automatic 5% surcharge (unless late payment agreed with HMRC).

August 2017

2 Submit employer forms P46 (car) for quarter to 5 July 2017

October 2017

5 Deadline to notify HMRC of chargeability to Income Tax or CGT for 2016/17.

14 Due date for CT61 return and CT payment for quarter to 30 September 2017.

31 Deadline to submit 2016/17 Self Assessment tax return if filed on paper.

November 2017

2 Submit employer forms P46 (car) for quarter to 5 October 2017.

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.

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 2017 for year ending 31 March 2016.

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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