Winter 2016

alwyns
CHARTERED ACCOUNTANTS

helping you achieve your personal & financial goals

Financial news that's relevant to you.

INTRODUCTION

We now know the path that Philip Hammond would like to tread following his autumn statement on 23 November. We have included in this newsletter a number of the tax changes that were disclosed.

The Brexit process continues, as does the uncertainty regarding our future trading position with the EU single market.

Let us hope that Mr Hammond has got his number crunching right and that we can now start to make progress. Many issues remain uncertain. Will we see increasing inflation? What will be the effects on employment, wages and business profits?

We will continue to keep you informed. Business owners that have particular concerns would be best advised to seek professional advice.

BUDGET SUMMARY

Salary sacrifice axed?

One of the items in the autumn statement was the disclosure that salary sacrifice arrangements would be taxed more fairly in future. What this means in practice is that arrangements will be taxed as if they were cash income; in effect, any tax advantage will be lost.

There are exemptions. Salary sacrifice involving pensions, pensions advice, childcare, Cycle to Work and ultra-low emission cars will be exempt.

Also, all arrangements in place before April 2017 will be protected for up to one year, and those in place for cars, accommodation and school fees will be protected for up to four years.

High income earners looking to use a salary sacrifice arrangement to reduce their exposure to higher rate tax, should revisit their options. Although Mr Hammond is closing a tax planning door, there would appear to be opportunities to extend the use of this planning tool as long as arrangements are in place before April 2017.

National Living Wage increase

From April 2017, the National Living Wage for the over 25s will be increased from £7.20 to £7.50 per hour. Good news for the affected wage earners.

From the same date, the National Minimum Wage rates are also increasing. They will be increasing to:

- For 21 to 24 year olds – from £6.95 to £7.05 per hour
- For 18 to 20 year olds – from £5.55 to £5.60 per hour
- For 16 to 17 year olds – from £4.00 to £4.05 per hour
- For apprentices – from £3.40 to £3.50 per hour

The government will also be spending an additional £4.3m to ensure that employers are complying with their legal obligation to pay the NMW. Employers should make sure that they make the appropriate changes to pay rates from April next year as HMRC seem to be stepping up their enforcement of NMW obligations.

Changes to VAT Flat Rate Scheme

HMRC is to introduce an additional test that will determine the flat rate percentage used by traders. It would seem that HMRC presently considers the benefits obtained by certain businesses to be excessive and not in accord with the intentions of Parliament.

Traders that meet the new definition of a “limited cost trader” will be required to use a fixed rate of 16.5%. This will include traders who are already using the FRS scheme, and many at rates lower than 16.5%.

For some businesses - for example, those who purchase no goods, or who make significant purchases of goods – the outcome of the test will be self-evident. Other businesses will need to complete a simple test, using information they already hold, to work out whether they should use the new 16.5% rate.

Businesses using the FRS will be expected to ensure that, for each accounting period, they use the appropriate flat rate percentage.

Employer shareholder scheme changes

As part of the Autumn Statement, it was announced that legislation will be enacted to remove the Income Tax reliefs on the receipt or buy-back of shares issued to an employee under an employee shareholder agreement made on or after 1 December 2016. This also removes the Capital Gains Tax (CGT) exemption relating to shares received as consideration for entering into an employee shareholder agreement on or after the same date. Shares received under agreements made before that date are not affected. Corporation Tax reliefs for the employer company are not affected.

Expanded tax relief for museums and galleries

The scope of the new museums and galleries tax relief is to be expanded to include permanent exhibitions. The new relief will compliment a number of other creative sector tax reliefs from 1 April 2017, including relief for films, high-end and children's television, animation, video games, theatre and orchestral productions.

The aim of the new tax relief is to encourage the creation of more high quality museum and gallery exhibitions, as well as to support touring exhibitions across the country and abroad, raising the UK's profile internationally.

This measure was first announced as part of Budget 2016, but was originally intended to be available for temporary and touring exhibitions. The scope of the relief was extended as part of the Autumn Statement measures. The relief will be based on other creative sector tax reliefs, but may be adapted to fit in with the way museums and galleries operate. The rates of relief will be set at 20% for non-touring exhibitions and 25% for touring exhibitions.

The relief will be capped at £500,000 of qualifying expenditure per exhibition. The relief will initially be for a period of 5 years (until April 2022) but this will be reviewed in 2020.

The new investment bond

The Chancellor has announced that a new National Savings and Investments (NS&I) product called the NS&I Investment Bond will be launched. The new Investment Bond will offer a new market leading rate for savers who have been hard hit by low savings rates for a number of years.

The exact details of the new bond will be announced at Budget 2017. However, the Chancellor expects that the bond will offer a market leading rate and will be a 3-year savings bond. Early indications are suggesting that the bond will offer an indicative interest rate of 2.2% but this is subject to adjustment when the product is launched.

The bond will be open to those aged 16 and over, subject to a minimum investment limit of £100 and a maximum investment limit of £3,000. The product will be available for 12 months from spring 2017. It is expected that around 2 million people will benefit from the new bond.

NIC & PENSIONS

NI contribution gaps

There are circumstances where you may get gaps in your record if you don't pay National Insurance or don't get National Insurance credits. This could be because you were:

- employed but had low earnings
- unemployed and weren't claiming benefits
- self-employed but didn't pay contributions because of small profits
- living abroad

These gaps could create a situation where you won't have enough years of National Insurance Contributions to get the full State Pension (sometimes called 'qualifying years').

You may be able to pay voluntary contributions to fill any gaps depending on whether you're eligible. Usually, you can only pay for gaps in your National Insurance record from the past 6 years. You can sometimes pay for gaps from more than 6 years ago depending on your age.

You can find out if you have gaps by requesting your National Insurance record. This will advise you if you can pay voluntary contributions to fill gaps and how much it will cost you.

You may also be eligible for National Insurance credits if you claim benefits because you can't work, are unemployed or a full-time carer.

The Class 3 NIC rates for 2016-17 are

£14.10 per week.

Cash from a defined contribution pension scheme

There are now various options that can be used to withdraw funds from your pension pot(s). The following comments are a summary of some of the options.

Your pensions advisor is the best person to consult when considering your options. Ask them if you can take one of the following:

- a tax-free lump sum worth up to 25% of your pension pot
- a whole pension pot as a lump sum if it's small - 25% is tax free
- cash from a defined contribution pension scheme - 25% is tax free

When you can do this depends on your pension scheme's rules - it's usually age 55 at the earliest.

You may have to pay higher rates of Income Tax if you take a large amount from your pension pot - and you may owe extra tax at the end of the relevant tax year.

You can usually take 25% of your pension pot as a tax-free lump sum before you take the rest of the money. You then:

- decide how to take the rest of your pension pot if you're in a defined contribution pension scheme
- get the rest of the money as a guaranteed amount each year if you're in a defined benefit pension scheme

Taking the whole pension pot as a lump sum

You can usually take a whole pension pot worth up to £10,000 as a lump sum - 25% is tax free. This is called a 'small pot' lump sum. You can usually get:

- up to 3 small pot lump sums from different personal or stakeholder pension providers
- unlimited small pot lump sums from different workplace pensions

£30,000 or less from defined benefit schemes ('trivial commutation')

If you have £30,000 or less in all of your pension pots (defined benefit and defined contribution), you can usually take everything you have in defined benefit pots as a 'trivial commutation' lump sum - 25% is tax free.

If it's paid from more than one pension scheme, you must:

- have your savings in each scheme valued by the provider on the same day, no more than 3 months before you get the first payment
- get all payments within 12 months of the first payment

If you take payments from a pension pot before taking the rest as a lump sum, you pay tax on the whole lump sum.

Cash from a defined contribution pension scheme

You may be able to withdraw cash directly from your pension pot if you're in a defined contribution pension scheme. You can either withdraw:

- your whole pension pot - 25% is tax free
- smaller cash sums - 25% of each sum is tax free

These are called 'uncrystallised funds pension lump sums' (UFPLS).

You may have to pay tax on money you pay in to your pension pot after you withdraw cash.

As you can see, the choices are many and the issues fairly complex. Dipping into your pension savings may seem like a good idea, most of us would have no problem enjoying the choices this would open up for us, but apart from the tax issues highlighted above, you will need to consider the effects of eating into your pension pots on your ability to fund your retirement. Professional advice is recommended before you make any decisions to change your pension plans.

Secondary annuities market idea is scrapped

During October 2016, and after an extensive programme of engagement with industry, financial regulators and consumer groups, the government has decided not to take forward plans to introduce a secondary annuities market because the consumer protections required could undermine the market's development and benefits.

Over the past few months, following a wide range of discussions, it has become increasingly clear that creating the conditions to allow a vibrant and competitive market to emerge, with multiple buyers and sellers of annuities, could not be balanced with sufficient consumer protections.

Many firms have shown they are willing to allow customers to sell their annuities, but the government is clear that there will be insufficient purchasers to create a competitive market.

While exploring this further, it has become clear that the steps that the government would need to take to create purchasing demand in the market would undermine other consumer protections.

Consumer protection is a top priority for

the government who are not willing to allow a market to develop which could produce poor outcomes for consumers, such as receiving poor value for their annuity income stream and suffering higher costs.

The government says that it has always been clear that for the majority of people keeping their annuity incomes will be their best option.

VAT & DUTIES

VAT cash accounting scheme

Is the amount that your business is owed by customers significant?

If the answer is yes, are you registered for the VAT cash accounting scheme?

Usually, the amount of VAT you pay HMRC is the difference between the amount of VAT added to your sales invoices and purchase invoices. You have to report these figures and pay any money to HMRC even if the invoices haven't been paid.

With the cash accounting scheme, you:

- pay VAT on your sales when your customers pay you
- reclaim VAT on your purchases when you have paid your supplier

To join the scheme your VAT taxable turnover must be £1.35 million or less.

If you think that you may benefit, we would be happy to crunch the numbers for you to ensure that there are real cash flow benefits for your business.

BUSINESS

Christmas tax tips

If you are concerned about the tax consequences of Christmas celebrations and gifts your business may be funding this year, read on. This is a time of the year when you and your staff may be looking forward to the firm's annual Christmas bash, and we have included this article setting out the best way to organise these events without falling foul of HMRC.

December gives us an excuse to let our hair down and enjoy a well-earned celebration with our work colleagues and partners. The cost of an annual staff party or similar function is allowed as a deduction for tax purposes. However, the cost is only deductible if it relates to employees and their guests, which would include directors in the case of a company, but not sole traders and business partners in the case of unincorporated organisations. Also, it does not include ex-employees.

As long as the criteria below are followed there will be no taxable benefit charged to employees:

1. The event must be open to all employees at a particular location.
2. An annual Christmas party or other annual event offered to staff generally is not taxable on those attending provided that the average cost per head of the functions does not exceed £150 p.a. (inc VAT). The guests of staff attending are included in the head count when computing the cost per head attending.
3. All costs must be taken into account, including the costs of transport to and from the event, accommodation provided, and VAT. The total cost of the event is divided by the number attending to find the average cost. If the limit is exceeded then individual members of staff will be taxable on their average cost, plus the cost for any guests they bring.
4. VAT input tax can be recovered on staff entertaining expenditure. If the guests of staff are also invited to the event the input tax has to be apportioned, as the VAT applicable to non-staff is not recoverable. However, if non-staff attendees pay a reasonable contribution to the event, all the VAT can be reclaimed and of course output tax should be accounted for on the amount of the contribution.

'Trivial' gifts for employees.

From 6 April 2016, trivial benefits are exempt from tax as employment income if all of the following conditions apply:

- the cost of providing the benefit does not exceed £50 (or the average cost per employee if a benefit is provided to a group of employees and it is impracticable to work out the exact cost per person);
- the benefit is not cash or a cash voucher;
- the employee is not entitled to the benefit as part of any contractual obligation (including under salary sacrifice arrangements); and
- the benefit is not provided in recognition of particular services performed by the employee as part of their employment duties (or in anticipation of such services).

Where the employer is a close company and the benefit is provided to an individual who is a director or other office holder of the company (or a member of their family or household), the exemption is capped at a total cost of £300 in the tax year.

If any of these conditions is not satisfied then the benefit is taxed in the normal way, subject to any other exemptions or allowable deductions.

The exemption applies equally to benefits provided to the employee or to a member of the employee's family or their wider household.

Demise of the "round" pound

Businesses that use £1 coin operated machines would do well to read the following press release issued by the Royal Mint 31 October 2016. They announced:

A new campaign to support retailers and other major businesses to prepare for the introduction of the new £1 coin has been launched.

A new website goes live - as part of the 'Is your business ready campaign?' - providing businesses with materials aimed to support them in their preparation for the new coin, which comes into circulation in March 2017.

The government and Royal Mint are supporting all businesses affected as the 30-year-old pound coin is withdrawn from circulation and replaced with a new 12-sided version.

The new pound coin will be the most secure of its kind in the world, to combat counterfeiters who have around 45 million counterfeit £1 coins currently in circulation. New security features include a hologram-like image that changes from a '£' symbol to the number '1' when the coin is seen from different angles. It also has micro-lettering and milled edges.

Businesses of all sizes are being encouraged to visit the http://www.thenewpoundcoin.com website to find out how to get ready for the change, and to download helpful materials to help educate and train staff.

All cash handling businesses should take the following steps before the March 2017 deadline:

- check whether they operate equipment that handles the £1 coin
- contact their equipment supplier to find

out if they need to make any adaptations or upgrades
- make the necessary changes to their coin handling equipment
- train their staff on the features of the new £1 coin
- make arrangements with their bank or cash in transit provider to return the current £1 coin and new £1 coin in separate packaging

David Gauke, the Chief Secretary to the Treasury, said:

The pound as we know it will not be round for much longer. The introduction of this new £1 coin will be a highly significant event and we are working with The Royal Mint to ensure key industries are ready and to ensure a smooth transition.

The new £1 coin will be the most secure of its kind in the world and its cutting-edge features will present a significant barrier to counterfeiters, reducing the cost to businesses and the UK taxpayer.

Adam Lawrence, Chief Executive of The Royal Mint, said:

We are hugely proud of the new 12-sided £1 coin, which has been designed using cutting edge technology at our South Wales site.

We would encourage business owners to visit the website as soon as possible, to find out how the new £1 coin could affect their business and what steps they need to take to prepare for the launch of the coin in March 2017.

The website advises that between March 2017 to September 2017 you will be able to accept old and new coins from customers. Your equipment machine providers should be able to accommodate this. From September 2017, only the new £1 coins will be accepted.

Claiming pre-trading costs

Generally speaking, any business expenditure that you make up to seven years before you actually start trading, is treated for tax purposes as if it was incurred on the first day of trading.

This expenditure includes rent, rates, insurance, wages and other costs that you have had to pay.

You can also claim capital allowances for qualifying assets. Again, they are treated as being made on the first day of trading. However, assets that you have previously owned, that you introduce into your new business, will need to be valued at market value at the same date. These could, for example, include your car or personal computer.

Repairs can be a tricky item, as HMRC may want to treat them as improvements to your business property that were incurred to bring them to a working standard prior to commencement of trade. If they succeed in their argument HMRC would not allow a deduction as a revenue expense.

Repairs undertaken before commencement of trade should be allowed if the following points apply:

1. The costs are regular maintenance rather than improvements.
2. The repairs were not incurred to make premises fit for trade.
3. The price paid for premises was not reduced to account for repairs to be made after purchase.

MISCELLANEOUS

Loss of personal tax allowance

If it looks as if your taxable income for 2016-17 will exceed £100,000 for the first time, we suggest you invest in tax planning advice as you are about to lose all or part of your £11,000 tax allowance.

And it gets worse…

Consider Sally, whose estimated income for 2016-17 is £122,000. For every £2 that her income exceeds £100,000 her personal tax allowance is reduced by £1. In her case, this will mean that all of her £11,000 tax allowance will be lost.

The additional tax payable on the £22,000 of income above £100,000 is 40% of £22,000 plus 40% of the lost £11,000 allowance. This adds up to a tax liability of £13,200 or an effective tax rate of 60%.

Also, as Sally's income has topped £100,000 she is required to register for Self Assessment.

There are strategies that can be employed to reduce taxable earnings. For example, by increasing pension contributions or other allowable deduction, or taking additional holiday entitlement in place of salary increases. The key is to take advice now while there is still time to reflect on these options and avoid the 60% tax charge.

FINANCIAL CALENDAR

December 2016

30 Last day to submit 2015/16 tax return online to have unpaid tax of up to £17,000 collected through the 2017/18 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 2017

14 Due date for CT61 return and CT payment for quarter to 31 December 2016.

31 Submit 2015/16 Self Assessment return online. Pay balance of 2015/16 Income Tax and CGT plus first payment on account for 2016/17.

February 2017

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

March 2017

31 Last minute planning for 2016/17 tax year. Make sure to use any CGT and IHT annual allowances and exemptions.

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.

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.

alwyns
CHARTERED ACCOUNTANTS

helping you achieve your personal & financial goals

- Accountancy
- Audit
- Taxation
  - Business
  - Personal
- VAT
- Payroll
- Bookkeeping
- Wealth and retirement planning
- Business support services
  - Profit improvement consultancy
  - Funding
  - Business purchase or sales
  - Strategic planning
  - Management accounting
  - Outsourcing
  - Company secretarial services

Alwyns Chartered Accountants
Crown House, 151 High Road
Loughton, Essex IG10 4LG

020 8502 0411

www.alwynsllp.com