

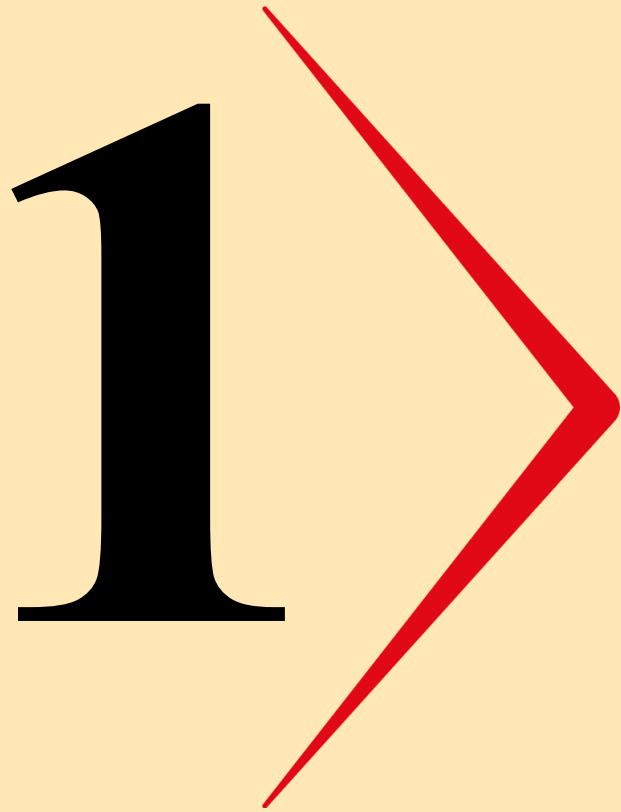


*Tax update*  
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# *Content*

1. Personal tax
2. Business tax
3. Employer tax

# *Personal tax*



*The Spring Budget introduced a change to reduce tax-motivated incorporations and from April 2017 two new £1,000 allowances are available to individuals*

# *Allowances*

Tax year	Personal allowance	Personal savings allowance	Dividend allowance	Trading allowance	Property allowance
2016/17	£11,000	£1,000, £500 or nil	£5,000	N/A	N/A
2017/18	£11,500	£1,000, £500 or nil	£5,000	£1,000	£1,000
2018/19	?	?	£2,000	?	?

- Personal allowance rising to £12,500 by the end of parliament
- Personal savings £1,000 for basic rate taxpayers, £500 for higher rate taxpayers and nil for additional rate tax payers
- Marriage allowance available at 10% of personal allowance
  - Basic rate tax payers only

# *Rate bands*

Tax year	Basic rate band	Higher rate band	Additional rate band
2016/17	£0 - £32,000	£32,001 - £150,000	£150,001+
2017/18	£0 - £33,500	£33,501 - £150,000	£150,001+

- Earned income 20%/40%/45%
- Savings income 0%/20%/40%/45%
- Dividend income 0%/7.5%/32.5%/37.5%
  
- Lose £1 of personal allowance for every £2 of income over £100,000

# *Savings income*



## *Starting rate for savings income is 0% on first £5,000*

- Interest is now paid gross by banks and building societies
- Personal savings allowance in addition to starting rate band
- Many individuals not liable to tax until income exceeds £16,500 but could be as high as £17,000 or £17,500

# *Dividend income*



***Dividends are now paid gross and no 10% tax credit***

- Starting rate band not available
- First £5,000 of taxable dividends taxed at 0%
- Above £5,000 dividends in:
  - Basic rate band taxed at 7.5%
  - Higher rate band taxed at 32.5%
  - Additional rate band taxed at 38.1%

# *National insurance*

Tax year	Primary threshold	Upper earnings limit
2016/17	£155 (£8,060)	£827 (£43,000)
2017/18	£157 (£8,164)	£866 (£45,000)

- 12% between primary threshold and upper earnings limit
- 2% thereafter

Tax year	Secondary threshold	Rate
2016/17	£156 (£8,112)	13.8%
2017/18	£157 (£8,164)	13.8%



# *National insurance*

- For the self-employed...
- Class 2 NIC abolished from April 2018
  - 2016/17 - £2.80 per week if profits > £5,965
  - 2017/18 - £2.85 per week if profits > £6,025
- Increase in Class 4 NIC announced at Spring Budget now scrapped
  - 2016/17 – 9% between £8,060 and £43,000, 2% thereafter
  - 2017/18 – 9% between £8,164 and £45,000, 2% thereafter

# *ISAs*

- NISAs
  - New ISAs, merging cash and stock elements, £20,000 for 2017/18
  - Junior ISAs for children up to age 18, £4,128 for 2017/18
- Help to Buy ISA
  - Save up to £200 per month, Government tops up £50
  - Maximum bonus £3,000, minimum bonus £400
  - Limits are per person
  - Accounts available for 4 years, but once open, no limit on how long can be used for saving
  - Bonus available on home purchases up to £450,000 in London, £250,000 elsewhere. Bonus to be paid at time home is purchased
- Flexible ISAs available from autumn 2015 (the in & out ISA)

# *ISAs*

- LISA – lifetime ISA announced budget 2016
  - Available from April 2017
  - Under 40 years of age
  - Save £4,000 pa
  - Government bonus of £1 for every £4 each year up to age 50
  - Bonus payable at the end of the year for 2017/18 and monthly thereafter
  - Can merge help to buy ISA into LISA, add savings limit
  - Maximum annual ISA savings £20,000 from April 2017
- Help to save ISA
  - Low income, £50 pm max, 50% government bonus
  - April 2018

# *Child benefit charge*

- Child benefit:
  - £20.70 per week for eldest child
  - £13.70 per week for other children
- Phased out if either parent earns over £50,000
- If either earns > £60,000 full charge applies
- Child benefit charge is collected via self assessment unless opt out of receiving it (NB. this is not the same as electing not to claim)

# *Tax relief for childcare*

- Childcare vouchers to the value of £55pw are tax and NI exempt for basic rate taxpayers and higher and additional rate taxpayers enrolled in the scheme before 6 April 2011
- The income tax and NI exempt limits for higher and additional rate taxpayers capped at £28 and £22 respectively for joiners on or after 6 April 2011
- A **new scheme** will be introduced on **28 April 2017** giving support of 20% on childcare costs up to £10,000 per child
- The old scheme will be phased out
- New scheme not available if either parent earns over £100k
- Can stay in old scheme or join new scheme

# *Capital gains tax 2017/18*

- Annual exemption is £11,300
- CGT at 10% for basic rate tax payers and 20% for higher/additional rate taxpayers
- EXCEPT...on residential property and carried interest which is 18%/28%
- Entrepreneurs' relief and investors' relief available at 10%

# *Tax relief for investors 2017/18*

- Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS) and

	EIS	SEIS
Investment qualifying for income tax relief	£1m	£100k
Income tax relief	30%	50%
Capital gains tax on disposal of shares	Nil	Nil
Capital gains deferral by EIS investment	Unlimited	N/A
Capital gains tax exemption of 50% on gains reinvested in SEIS shares	N/A	Yes

# *Common reasons for claims failing*

- Take great care with qualifying conditions, eg
  - Make sure investors **pay for their shares**
  - Beware investors who take **out loan finance at cheap rates**
- An investor must not be connected with the company
  - period beginning two years before the issue of the shares and ending three years after the issue (or starts to trade if later)
  - Connection might be because-
    - Own more than 30%
    - Investor (or associate) is a partner, director or employee
- Wef 6 April 2015, rule requiring 70% SEIS money to have been spent before EIS/VCT new issue is abolished
- **Must** claim income tax relief to obtain CGT exemption



# *Entrepreneurs' relief and investors' relief*

- Entrepreneurs' relief
  - 10% CGT on disposal of shares
  - Must hold shares for at least three years
  - Must own at least 5% of the company
  - Must be an employee/officer of the company
  - Lifetime allowance £10m
- Investors' relief
  - Introduced in Finance Act 2016
  - 10% rate of CGT on disposal of shares
  - Must hold shares for at least three years
  - Cannot be connected to the company
  - First claims will be in 2019
  - Lifetime allowance £10m

# *Pensions*

- Maximum allowable contribution from 2014/15 is £40,000pa
- Restricted relief for high earners, £1 of allowance lost for every £2 income in excess of £150,000 to a minimum allowance of £10,000 from April 2016 (£4,000 from April 2017)
- Pension input periods aligned with tax year for everybody.
- Unused allowance of previous three years allowed
- Lifetime allowance is £1m
- More flexibility (lump sum, annuity, drawdown)

# *Statutory residence*

- Statutory residence test from 2013/14
- Applies for income tax, capital gains tax and where relevant inheritance tax but not NIC
- Resident in UK if satisfy automatic residence test or sufficient ties test otherwise not resident
- Automatic residence test met if
  - satisfy one of automatic UK tests and
  - none of the automatic overseas tests
- Ordinary residence concept removed
- Complex rules for split year

# *Domicile*

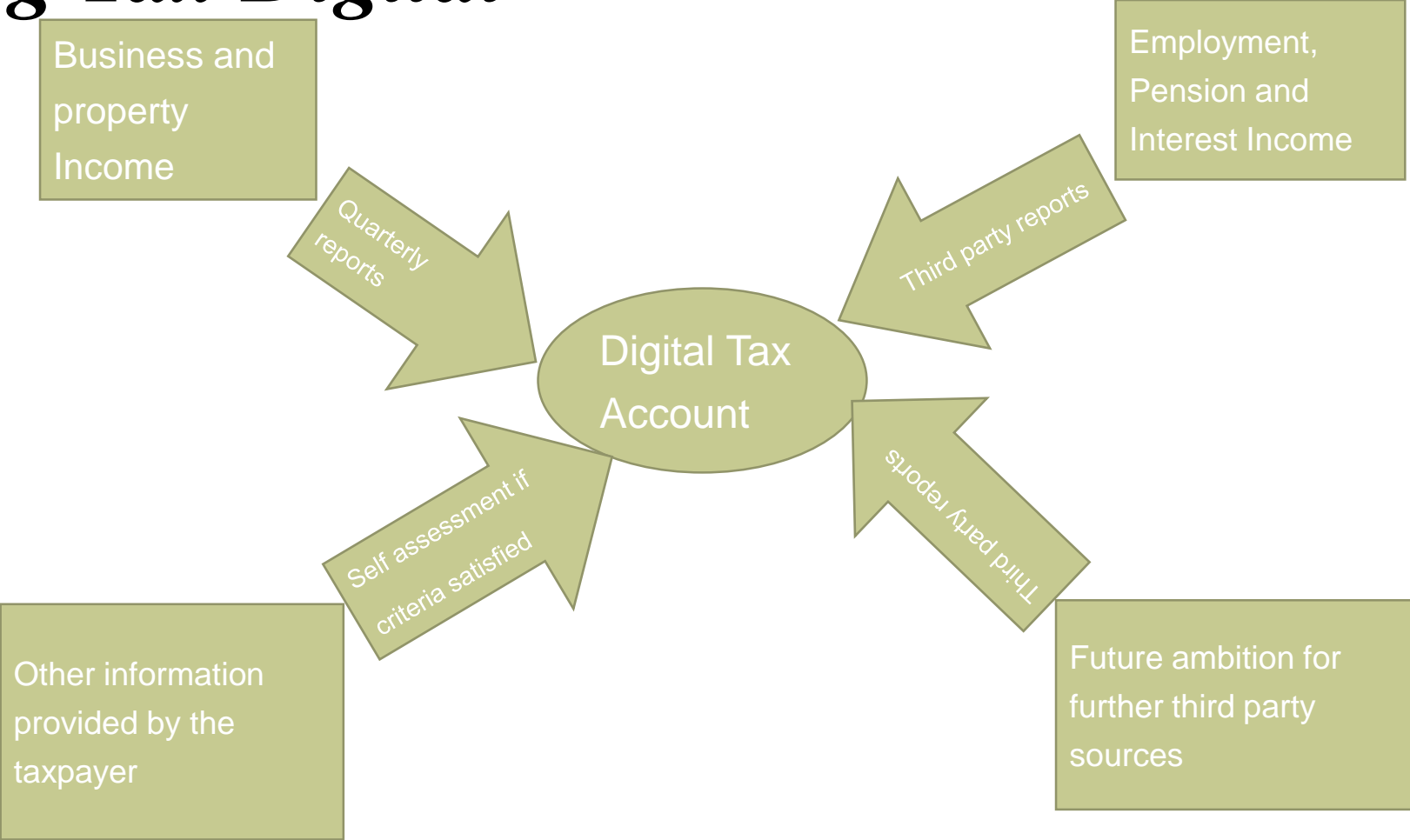
- Deemed domicile concept for IHT to be extended to other taxes from April 2017
- Test will be 15 out of 20 years
- Draft legislation in Finance Bill 2017

# *Business tax*

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*Making Tax Digital is the biggest change to the UK tax system since the introduction of self assessment*

# *Making Tax Digital*



# *MTD – what does it mean?*

- Maintaining accounting records **electronically**
- **Excel** acceptable but must feed to HMRC via third party software
- Reporting business and property information **quarterly** to HMRC
- Third party information (employment, pension, interest for now) **pre-populated**
- Other information will continue to be reported on a self assessment tax return, for now
- Software pilots have begun

# *MTD - start dates*

- MTD commences as early as April 2018
  - Unincorporated businesses and landlords with turnover above VAT threshold – **APRIL 2018**
  - Unincorporated businesses and landlords with turnover below VAT threshold – **APRIL 2019**
  - VAT for all businesses – APRIL 2019
  - Companies and complex businesses (incl. large partnerships) – **APRIL 2020**
- MTD for unincorporated businesses and landlords = MTDfB
  - Quarterly reports submitted to HMRC via third party software
  - End of Period Statement and End of Year Declaration



# *MTD – exemptions and deferrals*

- Turnover less than £10,000 = no obligation to report quarterly
- Digitally excluded = exempt from digital reporting requirements
- Turnover less than VAT threshold = one year deferral to April 2019
- Partnerships with turnover > £10m = deferred to April 2020

# *Support*

- News stories on weekly newswire
- MTD hub on [icaew.com/mtd](https://www.icaew.com/mtd) in development
  - Guidance on software from the IT faculty
  - Technical guidance
  - Separate sections for businesses, agents and individuals
- Regular MTD webinars and TAXtalk, free to all members
- Tax Faculty webinar series will have MTD content eg, property, cash basis
- [www.icaew.com/taxfacevents](https://www.icaew.com/taxfacevents)

# *Corporation tax*

- One rate regardless of level of profits
  - 19% from April 2017
  - 17% from April 2020
- Quarterly payments for companies with profits of £20m and over now deferred until 2019/20

# *Small business tax*

Two separate pieces of legislation available from 2013/14 affecting unincorporated businesses and partnerships only

- Cash basis for small businesses
  - HMRC guidance at <https://tinyurl.com/nx38dgj>
  - Schedule 4, FA2013
  - Inserts new chapter 3A: Trade profits: cash basis and s25A, ITTOIA 2005
  - **From April 2017 cash basis entry point increases from £83,000 to £150,000**
- Deductions allowable at a fixed rate
  - Schedule 5, FA2013
  - Inserts new chapter 5A: Trade profits: Flat rate deductions and ss94B to I, ITTOIA 2005
- Both, either or neither may be used. They operate separately

# *Cash basis for trading income*

- **Optional** and by election
- Taxable amount applies also for NIC
- Receipts less expenditure
- Sole traders and partnerships only
- Threshold is receipts up to **£150,000** (previously £83,000)
- Must leave the cash basis once receipts exceed **£300,000**
- No sideways loss relief
  - Interest paid not generally allowed unless purchase credit (eg HP)
    - But general interest of up to £500 pa is allowed and 'wholly & exclusively' rule doesn't apply

# *Trade profits: deductions allowable at a fixed rate*

All businesses have the option to use any/all of these flat rates as they wish

- Fixed allowances for business mileage (cars and motor cycles)
  - Cars, 45p per mile for first 10,000 miles, 25p per mile after that (provided no previous expenditure allowed through capital allowance)
- Expenses for business use of home
- Three tier banded rate to calculate the add back adjustment for private use of business premises

# *Capital allowances*

- From 1 January 2016 Annual investment Allowance is £200,000 per annum for lifetime of parliament
- Writing Down Allowances at 18% (main pool) and 8% (special rate pool)
- 100% First Year Allowances available on low emission cars and energy saving technologies
- NO capital allowances where using the cash basis rules (except for cars)

# *Finance Bill 2017*

- Contributions to grassroots sports – corporation tax relief available
- Museums and galleries tax relief at 25% or 20%
- Changes to loss relief rules for companies
  - Losses incurred from 1 April 2017 can be carried forward against taxable profits and can be relieved in the group
  - Where taxable profits exceed £5m, b/f losses will be capped at 50% of profits
- Relief for interest expense
  - Where net interest expense > £2m, interest deduction capped at 30% of UK taxable profits



# VAT



## *From 1 April 2017*

- Registration threshold increases to £85,000
- Deregistration threshold increases to £83,000
- Changes to the Flat Rate Scheme (FRS) for limited cost traders
- OTS VAT simplification review

# *Employer tax*



*2017 and beyond sees the introduction of the apprenticeship levy, changes to the taxation of benefits and termination payments*

# *National insurance matters*

- Employment Allowance
  - From 6 April 2014
  - Up to £3,000 reduction in employer Class 1 NICs
  - Claim via payroll
  - Can claim all in first month if NICs are sufficient
  - Claim rolled forward to next year by HMRC
  - Employers paying Class 1 NIC are eligible but there are some excluded employers eg cannot claim for domestic staff, only one claim within a group of companies
  - If director is sole employee cannot claim from April 2016
  - Check eligibility at <http://tinyurl.com/pe764f5>

# *National insurance matters*

- NIC for employing young people
  - From 6 April 2015, no employers' NIC for employees under 21
  - From 6 April 2016, no employers' NIC for apprentices under 25
  - Applies to earnings up to the upper earnings limit (UEL)
  - UEL for 2017/18 is £866 pw
  - Both policies designed to cut the burden of employing staff

# *Apprenticeship levy*

- New employer tax which applies from 6 April 2017
- Pay bill > £3m
- Levy is charged at 0.5%
- Levy allowance £15,000

# *Optional remuneration arrangements*

- Changes to salary sacrifice rules from April 2017
- Income tax and class 1 secondary based on higher of:
  - Value of the benefit in kind
  - Cash foregone
- Applies where to benefits currently exempt from tax and NIC
- Transitional arrangements in place
- Benefits excluded from new rules: employer-provided pensions and pension advice, childcare vouchers, employer provided childcare and workplace nurseries, cycle to work schemes and ultra-low emission cars

# *Termination payments*

- Changes to the taxation of termination payments from April 2018
- First £30,000 of a termination payment is still exempt from income tax and NIC
  - From April 2018 class 1 secondary NIC due on excess above £30,000
- All contractual and non-contractual payments in lieu of notice will be taxable as earnings

# *Benefits in kind – cars and vans*

- 2017/18 – car benefit is relevant % x £22,600
  - 13% for petrol cars with emissions up to 50g/km
  - Now 16% for cars with emissions of 51 to 75g/km
  - Now 19% for emissions below 95g/km
  - Percentage increases by 1% for every 5g/km to a maximum of 37% for 180g/km and above
  - 3% supplement for diesel cars but maximum still 37%
- From 2017/18 vans benefit is
  - £646 for vans which do not emit CO<sub>2</sub>
  - £3,230 for vans which do emit CO<sub>2</sub>



# *Other benefits in kind*

- Government will consult on:
  - Taxation of benefits in kind – valuation method and exemptions
  - Accommodation benefits – when should accommodation be tax exempt?
  - Employee expenses – tax relief for expenses not reimbursed by the employer

# *Tax Faculty - useful links*

- **Tax news** <http://www.ion.icaew.com/taxfaculty>
- **Tax Forum** <http://www.ion.icaew.com/Taxforum>
- **Free weekly tax newswire**
  - link to sign up on news page
  - e mail notification of posts
- **TAXtalk** second Wednesday of each month
- <http://www.icaew.com/en/technical/tax/tax-faculty/tax-webinars>
- **Working with HMRC page**  
<http://www.icaew.com/en/technical/tax/working-with-hmrc>
- **TAXguides**  
<http://www.icaew.com/en/technical/tax/tax-faculty/taxguides>

# *Tax Faculty – membership benefits*

- TAXline monthly journal
- TAXguides
- Access to the tax referral scheme
- Free webinars
- Discounts on courses
- <http://www.icaew.com/en/join-us/join-a-faculty/tax-faculty>



*Thank you for listening*

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