IDH ACCOUNTANCY.

The Budget

Spring 2017

What's inside this year

Spring Budget, 8 March 2017

Your guide to the Budget 2017

How will the changes this year affect you?

Introduction

In the good humoured and jovial delivery of his first and last spring budget, Philip Hammond labelled himself the “Spreadsheet” Chancellor and boasted £26 billion of “headroom” as he prepares Britain for its global future.

For the first time the Finance Bill 2017 will set the main rate of tax for those resident in England, Wales and Northern Ireland with the Scottish Parliament already having set their residents main rate in February 2017. The personal allowance will be £11,500 for every UK resident but the higher rate threshold will be £2,000 lower for Scottish residents at £43,000.

The savings rate of tax continues to be set by the UK Government for all UK taxpayers.

Allowances

Two New Allowances

The Finance Bill 2017 will confirm two new allowances first introduced in the autumn statement 2016 – the Trading and Property Income Allowances. At £1,000 each, they can be deducted from income in place of actual expenses.

These new allowances will be available from 6th April 2017.

Dividend Allowance Reduction

The dividend allowance was introduced in April 2016 along with the increase in the tax rates for dividends by 7.5% at each tax rate band.

The £5,000 dividend allowance was introduced, in part, to counteract the withdrawal of the dividend tax credit, which gave a notional credit for the corporation tax already suffered before the dividend was paid. Dividends being paid from the taxed profits of a company i.e. the net profits after tax.

That change has already resulted in many basic rate shareholders paying more tax, for example, a basic rate taxpayer with earnings from their company of £11,500 and £30,000 of dividends will pay £1,875 in 2017/18 which would not have been payable in 2016/17.

From 6th April 2018 the dividend allowance will be reduced to £2,000. Replicating the circumstances above, a further £188 will be payable in 2018/19. Meaning an overall increase of £2,063 since the dividend allowance was introduced in April 2016.

Planning Point
Client with share portfolios or shareholding directors? Why not request a review of the impact of the changes to the way dividends are taxed. The first impact of the dividend allowance at £5,000 will be felt when the 2016/17 payments are due on 31st January 2018 and the reduction to £2,000 will impact on payments for the tax year 2018/19.

Employment

Off-Payroll Workers in the Public Sector

Contractors regularly work through their own limited company and can receive a 5% allowance to cover the cost of the administrative burden of running a company, invoicing the agency, organisation they contract too or the third party who arranged the work.

The rules which come into effect on 6th April 2017 apply to contractors contracting to public sector bodies and make those bodies responsible for deciding if the contractor is effectively their employee. The bodies have also been made responsible for deducting PAYE and National Insurance Contributions (NIC) and paying these over to HMRC.

Because the responsibility has been shifted from contractor to public sector body the 5% allowance has been withdrawn but the wider implication is that should the wrong employment status decision be made, it is now the engaging body who is responsible for whether the rules apply or not.

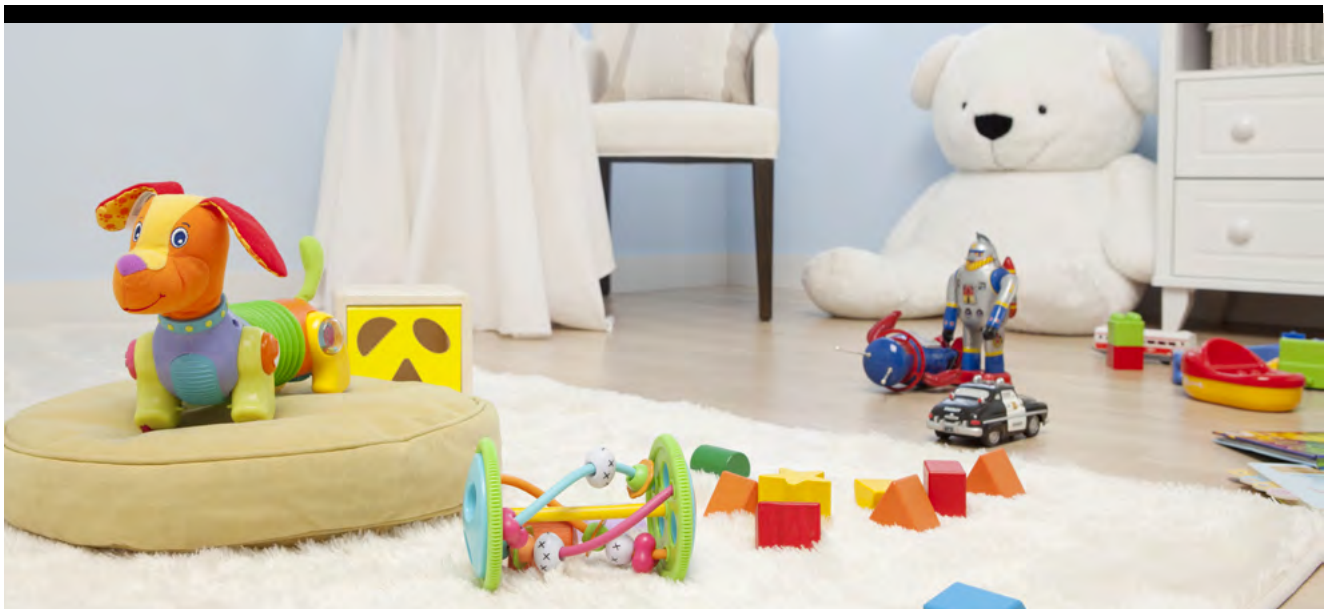
Planning Point
If you are a personal service company engaged by a public sector body you may wish to have your contract reviewed by one of our experts to ensure you can continue to be engaged via your limited company.

Salary Sacrifice to be withdrawn

The tax and NIC advantage gained by an employee having a benefit of employment provided by way of salary sacrifice is withdrawn from 6th April 2017.

This applies to all benefits with the exception of ultra-low CO2 emission vehicles, employer provided pension contributions, cycle to work schemes and Employer Supported Childcare schemes.

THE TAX AND NIC ADVANTAGE GAINED BY AN EMPLOYEE HAVING A BENEFIT OF EMPLOYMENT PROVIDED BY WAY OF SALARY SACRIFICE IS WITHDRAWN FROM 6TH APRIL 2017.



Childcare

Tax Free Childcare Account or Childcare Vouchers

Philip Hammond announced the long awaited Tax Free Childcare Account (Childcare Account) would be available from next month, although no fixed date is in the public domain at the time of writing.

Parents with younger children will be the first invited to open a Childcare Account with all parents being invited by the end of the year.

For self-employed parents this will mean that they have access to tax incentivised childcare for the first time, but for employed parents (including company directors) the decision to open a Tax Free Childcare Account is a decision to consider with the help of a professional advisor.

Up until April 2018 it will be possible for employers to offer tax incentivised Employer Supported Childcare Voucher Schemes (Voucher Schemes) to employees (including company directors) and in many circumstances the tax incentives of the Voucher Scheme will far outweigh those of the Childcare Account.

> **“PARENTS WITH YOUNGER CHILDREN WILL BE THE FIRST INVITED TO OPEN A CHILDCARE ACCOUNT WITH ALL PARENTS BEING INVITED BY THE END OF THE YEAR.**

The Childcare Account is with NS&I in partnership with HMRC and for every 80p deposited in the account the Government will add 20p to the account, up to a maximum of £2,000 per child (£4,000 if the child is disabled). This appears very generous and in many cases it will be the best option for helping to fund childcare costs, however there are a number of downsides.

A few examples:

- **The Childcare Account support ceases** on the September following the child's 11th birthday compared with the Voucher Scheme which can be used until the September following the child's 15th birthday.
- **Both parents have to be working** for the Childcare Account, where each parent can access the Voucher Scheme if they are working.
- **The Voucher Scheme is delivered via Salary Sacrifice** reducing net salary and for those where the Child Benefit has been withdrawn, it may become accessible once more.
- **The Childcare Account is not available for parents paying the additional rate of tax**, the Voucher Scheme is available to all parents.

There are many individual aspects to the calculations so it would be wise to review individual circumstances especially if either parent is claiming the childcare element of tax credits.

Planning Point

If you would like us to check the best option for you and your family or you are a director or employer who would like to know more about implementing a Childcare Voucher Scheme please call us.

Pensions and Savings

Reduction in the Money Purchase Annual Allowance

From 6 April 2017 the amount which an individual can invest in a pension scheme after having accessed their pension pot is being reduced from £10,000 to £4,000.

Tax relief is granted as contributions are made into a pension scheme but the pension's flexibilities introduced in 2015 mean those over 55 could immediately access those contributions and withdraw up to 25% tax free.

The Government anticipated the potential for double tax relief as individuals pay salary into their pensions, gain tax relief on the investment followed by an immediate 25% tax free withdrawal but the Government wished to encourage further savings into the pensions should the individual want or need to. The compromise is to restrict the annual allowance to £4,000.

Planning Point
Prior to making any pension contributions, why not undertake a review of your annual allowance? You may have unused allowances which can be carried forward and utilise in one year.

Lifetime ISA Account

From 6th April 2017 a new lifetime ISA can be set up by those aged 18 – 39 years old. The ISA is intended for either saving towards a first house purchase or saving toward retirement.

Not only is this a Tax Free savings account but it will also attract a deposit from the Government! For every £4 deposited in the account the Government will deposit a £1 bonus, with a maximum which can be deposited of £4,000 per individual per tax year resulting in a £1,000 Government contribution. If the savings are used towards a first house purchase, the property must be worth £450,000 or less and if the money is towards retirement then the individual must be aged 60 or over when it is withdrawn.

Of course, the individual can withdraw the funds at any time, however if the funds are not used towards retirement or a first house purchase they will lose the Government bonus, any interest added or investment growth PLUS have to pay a 5% penalty. The account can be either a stocks and shares ISA or a cash ISA but new deposits can only be made into one of each type of ISA account per year and any deposits made will count towards the individual's £20,000 ISA limit for 2017/18.

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FROM 6 APRIL 2017 THE AMOUNT WHICH AN INDIVIDUAL CAN INVEST IN A PENSION SCHEME AFTER HAVING ACCESSED THEIR PENSION POT IS BEING REDUCED FROM £10,000 TO £4,000

Inheritance Tax

Residence Nil Rate Band (RNRB) – the "Home Allowance"

A new allowance, in addition to the existing £325,000 Inheritance Tax (IHT) allowance which every individual can pass on following their death, is available from 6th April 2017 for homeowners or those who own a share in a home which is included in their estate.

The allowance is available when the home or the share in the home is passed on death to direct descendants (children or grandchildren) and is also available where the deceased has previously downsized to a less valuable home, sold or given away their home after 7 July 2015.

The allowance is available in full if the estate in total does not exceed £2million. For estates worth in excess of £2 million the allowance is tapered away.

The allowance is to be phased in with an initial £100,000 allowance from 6th April 2017, which is increased by £25,000 per annum until it reaches £175,000 in 2020/21.

For deaths in the tax year the rates will be:

2017/18 – £100,000
2018/19 – £125,000
2019/20 – £150,000
2020/21 – £175,000

For 2020/21 onwards the allowance will increase with inflation.

Any unused allowance can be transferred to the remaining spouse or civil partner and this allowance can also be transferred where the first of the couple died before 6th April 2017 – even though the allowance wasn't in existence at the time of their death.

There is no need to make a claim for the RNRB but the amount due must be shown on the IHT return following death. A claim is needed however for the transfer of unused RNRB from the estate of a late spouse or civil partner and a claim is also necessary for any additional RNRB due as a result of downsizing, the gift or sale of a home prior to death.

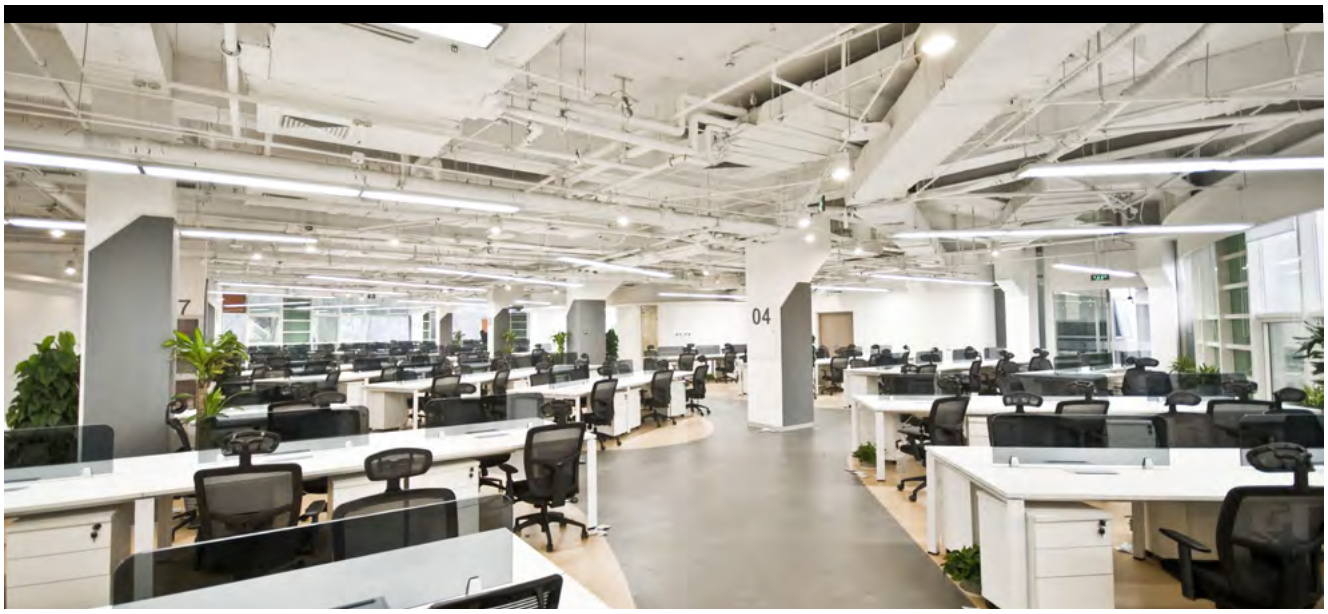
Where an individual has given away their home prior to death but continues to live in the property or otherwise benefit from the property, the home is still included in their estate. If the home was given to a direct descendant then the RNRB may still apply.

> **THE ALLOWANCE IS AVAILABLE IN FULL IF THE ESTATE IN TOTAL DOES NOT EXCEED £2MILLION. FOR ESTATES WORTH IN EXCESS OF £2 MILLION THE ALLOWANCE IS TAPERED AWAY.**

Stamp Duty Land Tax

Stamp Duty Land Tax (SDLT) payment window delayed

It was expected that the submission of the documentation for SDLT and the payment of the amounts due would have a reduced timescale from 30 days to 14 days with effect from April 2017, however the Government have decided to delay the implementation of this until after April 2018.



Business Tax

Digital Submission for Businesses

There has been a one year's stay of execution on the Making Tax Digital for Business (MTDfB) for unincorporated businesses and landlords with a turnover under the VAT threshold.

The Governments rush to implement MTDfB had mainly gone unnoticed by business and property owners. The date of their first submission would have been July 2018 but with so many oblivious to their responsibility to make a digital submission and pay their first quarterly tax instalment, penalties would certainly have been the result.

The one year's delay has given businesses and property owners the time to implement plans with the support of their professional advisers, to ensure they meet their first digital submission and payment date in July 2019.

Planning Point
Starting to submit business and property accounts information on a quarterly basis delayed until July 2019, however it is never too early to make a plan to be compliant.

Self-Employed National Insurance Contributions (NIC) Increased

It has been previously announced that Class 2 NIC would be abolished from April 2018. This is the flat fee of a few pounds per week and was known colloquially as paying "a stamp". The Chancellor has supported his predecessors commitment to abolishing Class 2 NI contributions but has increased the self-employed profit related Class 4 NIC's.

The rate of Class 4 NIC's will rise in April 2018 to 10% and from April 2019 to 11%. This is compared with an employee's contributions which have been static at 12% for some years now. The Chancellor commented on the lack of parity between the employed and the self – employed. However, it should be noted that there is a level of risk taken by the self-employed which is not present for the employed and parity, for example sick pay, holiday pay, maternity pay is not enjoyed by the self-employed.

Thresholds are in place for those with low profits, where contributions are not required and there is an upper threshold where contributions cease. For 2017/18 NIC's are payable on profits of between £8,164 and £45,000.

These thresholds usually increase each year.

Based on the 2017/18 thresholds a self-employed individual with profits of £16,250 will pay no extra NIC's following the changed in April 2018.

What's appropriate?

One of the tax changes which gained a nanosecond in the budget speech was rule about appropriations to and from stock. Philip Hammond called this "converting capital losses into trading losses". Why is this relevant or being tackled at this time?

As part of general anti-avoidance the option to convert losses on capital assets into a deduction against trading profits has been removed but what about the wider implications?

From April 2017 many property owners will be hit by changes to the way they receive tax relief on their rental properties and within 5 years higher rate taxpayers will see the tax relief they receive dropping from 40% or 45% tax relief to only the basic rate – 20%.

If the properties they own are in a largely rental property area the expected knock-on effect is that the property values will fall and landlords may then choose to dispose of these.

Say the landlord is also a property developer or in the building trade, the legislation could be used to take the reduced value properties from their letting portfolio into their trading company, moving a capital item (a property) to trading stock (a building to refurbish and sell on) and if that property has declined in value then the capital loss could be brought into the company and used against the profits of the trading company thus reducing the profits and the tax payable.

This option was closed down with immediate effect.

VAT REGISTRATION AND DE-REGISTRATION THRESHOLDS

The VAT registration threshold has been increased to a turnover of £85,000 and the de-registration threshold has been increased to £83,000 with effect from 1st April 2017.

Get in touch

If you would like to discuss any of the topics we've outlined then please get in touch with us – we'd be more than happy to answer any questions that you may have.

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