GILBIE ROBERTS
CHARTERED CERTIFIED ACCOUNTANTS

Client Bulletin

January 2017

RATES AND ALLOWANCES

Personal allowances

The personal allowance increases to £11,500 for the 2017/18 tax year. As for 2016/17 the allowance will be reduced by £1 for every £2 by which adjusted net income exceeds £100,000. This means that anyone with income in excess of £123,000 for 2017/18 will not receive the personal allowance.

Income tax rates and bands

For 2017/18 the basic rate of tax remains at 20%, the higher rate at 40% and the additional rate at 45%. The basic rate applies to the first £33,500 of taxable income, the higher rate applies to the next £116,500 (taxable income between £33,501 and £150,000) and the additional rate applies to taxable income in excess of £150,000.

New allowances for trading and property

From 6 April 2017 new allowances are introduced for trading and property income. The allowances are both set at £1,000. Where trading income is below £1,000, the income does not need to be declared to HMRC. Where trading income exceeds £1,000, the trader has the option of deducting £1,000 rather than actual expenses in arriving at his or her taxable profit.

Likewise, where property income is less than £1,000, this will no longer need to be reported to HMRC. Where property income exceeds £1,000, the taxpayer has the choice of deducting either £1,000 or actual expenses in computing his or her profit.

Dividend tax rates

For 2017/18 the dividend tax rates remain unchanged. Dividends are taxed at the dividend ordinary rate of 7.5% to the extent that they fall within the basic rate band, at the dividend upper rate of 32.5% to the extent that they fall within the higher rate band and at the dividend additional rate of 38.1% to the extent that they fall within the additional rate band. The dividend allowance remains at £5,000. Dividends covered by the allowance are taxed at a zero rate.

Corporation tax rate falls

The rate of corporation tax is reduced to 19% for the tax financial year 2017, starting on 1 April 2017.

SALARY SACRIFICE SCHEMES

End of the road for salary sacrifice

Under a salary sacrifice arrangement, the employee gives up an amount of cash salary in return for a benefit in kind. Where the benefit is exempt from tax and National Insurance, the employee saves the tax and primary Class 1 National Insurance that would otherwise be payable on the cash salary and the employer saves the associated secondary Class 1 National Insurance.

The ability to use salary sacrifice arrangements to take advantage of tax exemptions for benefits in kind is seriously curtailed from 6 April 2017. From that date, unless the benefit is one of a limited range of benefits unaffected by the changes, where a benefit is provided under a salary sacrifice arrangement or where a cash alternative to the benefit is offered, any associated tax and National Insurance exemption is lost. Instead, the employee will be taxed on the cash forgone or the amount of the cash alternative where this is higher than the cash equivalent of the benefit.

Certain benefits are unaffected by the changes – pension provision and advice, childcare, ultra-low emission cars and the provision of cycles and cyclists' safety equipment – and employees can continue to enjoy the associated tax exemptions where these benefits are made available under a salary sacrifice arrangement or where a cash alternative is offered instead.

Existing arrangements in place on 5 April 2017 are protected for one year until 5 April 2018. Where the arrangement relates to the provision of a car with CO2 emissions of 76g/km and above, living accommodation or school fees, the arrangement is protected for a further three years until 5 April 2021.

VAT FLAT RATE SCHEME

Changes to the VAT flat rate scheme

The VAT flat rate scheme is an optional simplified accounting scheme for small businesses. The scheme is available to businesses which are eligible to be registered for VAT and whose taxable turnover (excluding VAT) in the next year will be £150,000 or less. Once in the scheme, a business can remain in it as long as its taxable turnover for the current year is not more than £230,000.

The flat rate scheme is designed to simplify the recording of sales and purchases. Under the scheme a business works out the VAT that it is required to pay over to HMRC by applying a flat rate percentage to its gross (VAT-inclusive) turnover. The flat rate percentage depends on the type of business.

As announced at the time of the 2016 Autumn Statement, from 1 April 2017 onwards, in determining which percentage to use, a business will also need to determine whether it is a 'limited cost trader'. This is a trader whose VAT inclusive expenditure on goods is either less than 2% of their VAT inclusive turnover for the prescribed accounting period or more than 2% of VAT inclusive turnover but less than £1,000 a year. In working out if the 2% test is met, capital expenditure, expenditure on food and drink for consumption by the flat rate business or its employees and expenditure on vehicles, vehicle parts and fuel (other than where the business is one that carries out a transport service) is ignored.

Where from 1 April 2017 a business using the flat rate scheme meets the definition of a 'limited cost trader', that business will have to work out VAT payable to HMRC using a flat rate percentage of 16.5% rather than the lower flat rate percentage applicable to its business sector.

NATIONAL INSURANCE CONTRIBUTIONS

Abolition of Class 2 National Insurance contributions

Class 2 National Insurance contributions are to be abolished from 6 April 2018. Class 4 contributions are to be reformed from the same date to provide the mechanism by which the self-employed earn entitlement to the state pension and certain contributory benefits. The reform has a number of implications for the self-employed.

Class 2 contributions are flat rate contributions payable at the rate of £2.80 per week (rising to £2.85 per week for 2017/18) where profits from self-employment exceed the small profits threshold, set at £5,965 for 2016/17 and at £6,025 for 2017/18. Where profits are below the small profits threshold, a self-employed earner can choose to pay Class 2 contributions voluntarily. Where the earner has no other sources of income or does not receive National Insurance credits, the payment of Class 2 contributions is a low cost way of maintaining one's contribution record. By contrast, the rate of voluntary Class 3 contributions is £14.10 per week for 2016/17, rising to £14.25 for 2017/18. Those eligible but not required to pay Class 2 contributions should consider paying them voluntarily where it is beneficial to do so and while this option remains available.

From 6 April 2018 a new threshold will apply for Class 4 National Insurance purposes – the small profits limit. This will be set at the level of the annual lower earnings limit for Class 1 National Insurance purposes (£5,824 for 2016/17, rising to £5,876 for 2017/18). Class 4 contributions will be payable at a notional zero rate on profits between the small profits limit and the lower profits limit (set at £8,060 for 2016/17 and rising to £8,164 for 2017/18). This will mean that the self-employed with profits falling within this band will be able to maintain their contributions record for free.

BUSINESS PREMISES RENOVATION ALLOWANCE

Time running out for BPRA

The window of opportunity to take advantage of Business Premises Renovation Allowance (BPRA) is drawing to a close – to benefit from the relief, expenditure must be incurred on or before 31 March 2017 for corporation tax purposes and on or before 5 April 2017 for income tax purposes.

The aim of BPRA is to bring unused buildings back into use by providing 100% tax relief for expenditure on the conversion, renovation or repair of the redundant building. To qualify for the relief, the building must be in a disadvantaged area and unused for at least 12 months and the person incurring the expenditure must have a relevant interest – freehold or leasehold – in the property.

The relief is a valuable relief and those renovating unused buildings in disadvantaged areas should consider advancing qualifying expenditure where possible to take advantage of the relief while it is still available.

PENSIONS

New exemption for pensions advice

From 6 April 2017 employers will be able to provide employees with pensions advice costing up to £500 a year without triggering a taxable benefit. The new exemption will cover not only advice on pensions, but will also extend to advice on general financial and tax issues relating to pensions. The exemption will replace the current exemption, capped at £150 a year, available solely for pensions advice.

Money purchase annual allowance to fall to £4,000

Since 6 April 2015, individuals aged 55 and over have been able to flexibly access pension savings in a money purchase (defined contribution) scheme. To prevent 'recycling' of contributions (withdrawing and reinvesting to take advantage of the associated tax relief), a lower annual allowance, the money purchase annual allowance, applies (subject to certain exceptions) where a pension pot has been flexibility accessed. The allowance is set at £10,000 for 2016/17 but, as announced in the 2016 Autumn Statement, is to be reduced to £4,000 from 6 April 2017.

Those to whom the MPAA applies may wish to consider accelerating pension contributions to before 6 April 2017 to make best use of available allowances. Unlike the normal pensions annual allowance, the MPAA is lost if it is not used in full in the year in question.

ISAs

Lifetime ISA

The Lifetime ISA will launch in April 2017. A Lifetime ISA can be opened by anyone between the ages of 18 and 40. Savings of up to £4,000 a year made before the individual's 50th birthday will earn a Government bonus of 25% - a potential bonus of up to £1,000 a year. There is no minimum contribution.

The Lifetime ISA can only be used to save for a deposit for a first home or to save for retirement. Where the savings are used as a deposit on a home, the bonus is only payable as long as the home does not cost more than £450,000. If the ISA is used to save for retirement, the savings and the Government bonus can be withdrawn tax-free once the individual reaches his or her 60th birthday.

If the savings are withdrawn for any other purposes, the Government bonus is lost and a 5% charge is also payable.

DEEMED DOMICILE

Deemed domicile

From 6 April 2017 anyone who has been resident in the UK for 15 of the previous 20 tax years will be deemed to have a UK domicile where they do not already have one. This will apply for all tax purposes and will replace the current deemed domicile rule for inheritance tax purposes whereby an individual is deemed to be domiciled in the UK where he or she has been UK-resident for 17 of the previous 20 tax years.

The introduction of the deemed domicile will mean that the option to be taxed on the remittance basis on payment of the remittance basis charge will from 6 April 2017 no longer be available to those who have been resident in the UK for tax purposes for 15 of the last 20 tax years. The remittance basis is only available to those who are not UK domiciled or who are not deemed to be so domiciled. Consequently, the higher rate of the remittance basis charge (£90,000 for those resident in at least 17 of the previous 20 tax years) will cease to apply from 6 April 2017.

Anyone caught by the new rule will need to review their residence position.

This newsletter deals with a number of topics which, it is hoped, will be of general interest to clients. However, in the space available it is impossible to mention all the points which may be relevant in individual cases, so please contact us for personal advice on your own affairs.
