

**Business Tax
update**

27 September 2017

The webinar will begin shortly...

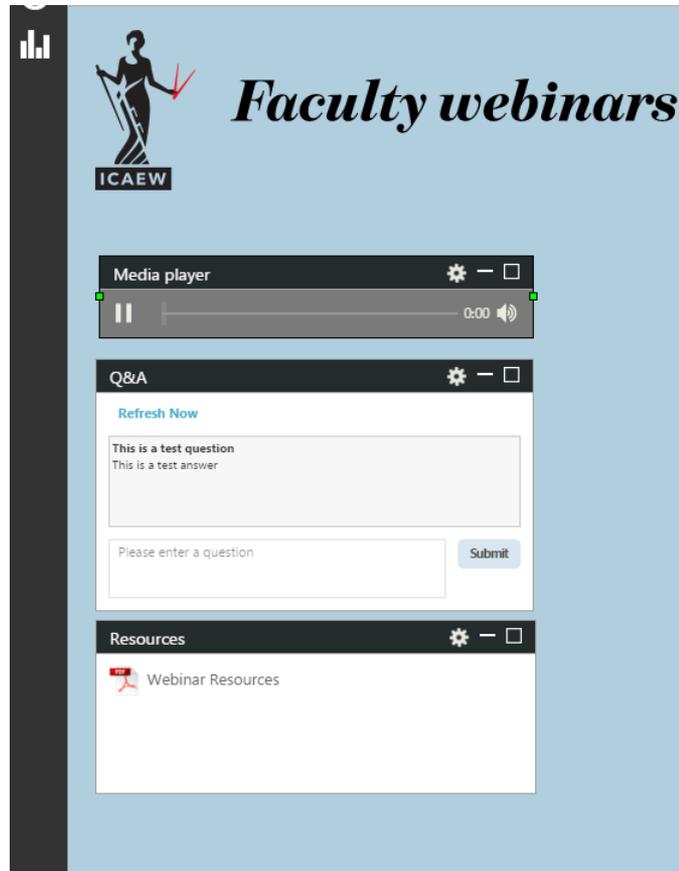
Business & Management



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Business tax update



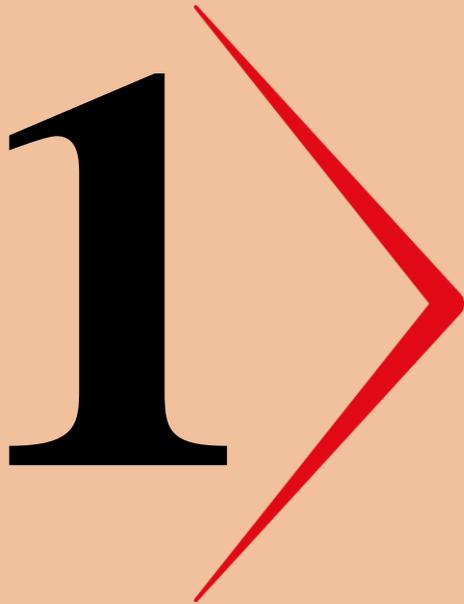
Anita Monteith



Sarah Ghaffari

Bills, Budgets and Acts

- Finance Bill 2017
- Finance Act 2017
 - Reforms to off-payroll working in the public sector
- Finance Bill 2017–19
 - Clauses not enacted in Finance Act 2017 including losses, interest restrictions, non-doms
- Finance Bill 2018
 - Some anti-avoidance measures
- Autumn Budget – 22 November 2017
 - ???



Making Tax Digital

On 13 July 2017 Mel Stride MP announced a new timetable and a shift to bring VAT into the forefront. So, where are we now?

Making Tax Digital – what is it?

- 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

The old timetable

- 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

The new timetable

- VAT is first
 - April 2019 – VAT registered businesses with turnover above the VAT threshold
- All other taxes
 - April 2020 earliest
- General direction of MTD is unchanged

What we are doing...

- Meetings
- Consultation re. corporation tax and complex businesses
- Software Advisory Group
- 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



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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
 - If director is sole employee cannot claim from April 2016
 - Check eligibility at <http://tinyurl.com/pe764f5>
- 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
- Consider employing apprentices, see www.gov.uk/guidance/manage-apprenticeship-funds

Reporting expenses and benefits 2016/17 onwards

- £8,500 threshold abolished
- Payrolling benefits began
- P9D abolished; P11D for all, by 6 July 2017
- Dispensation regime replaced by new statutory exemption for paid and reimbursed expenses

Payrolling benefits

- Must register with HMRC before the start of the relevant tax year
 - Which benefits
 - Which employees
- From April 2017, employers can payroll all benefits except
 - employer provided living accommodation
 - interest free and low interest (beneficial) loans
- Employer then adds the cash equivalent of the employees' benefits to their pay and taxes them through the payroll
- HMRC amends the tax codes of employees
- Class 1A NIC will need to be accounted for on form P11D(b), but no P11D

Tax codes

- Dynamic coding - making more use of RTI data to update tax codes
 - More tax code changes
 - Fewer over and under payments arising after the end of the tax year
 - Some taxpayers will have underpayments collected more quickly than under the present system
- Bonuses and other irregular payments
 - Check personal tax accounts (PTAs) and if necessary change estimated income figures for the current and subsequent tax years
- Access to personal tax account by logging onto www.gov.uk/personaltaxaccount
 - Sign in using a Government Gateway (GG) ID and password
 - Set up a GG account using a national insurance number, a telephone number, and either a P60 or a payslip

Trivial benefits

- 6 April 2016 onwards
- A BiK provided by an employer to an employee is exempt if all the following conditions are satisfied:
 - cost of providing the benefit does not exceed £50 per employee
 - 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)
 - 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

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 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 CO₂
 - £3,230 for vans which do emit CO₂

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

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Business tax

Changes to the treatment of brought forward losses and HMT considers why there is a shortfall of patient capital

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

Changes to carried forward losses

- Current rule
 - carry forward losses against trading profits only
- New rules to open up the use of b/f losses
 - carry forward against other income too
 - relieve against profits of the group
- BUT...restriction applies to companies with substantial profits
 - Only 50% of profits can be relieved by b/f losses subject to a £5m de minimis
 - Eg, a co has profits of £12m can only use losses against £8.5m of profits [$£5m + (50\% \times (£12m - £5m))$]

Patient capital review

- Announced at Autumn Statement 2016
- Government's commitment to provide more support for UK infrastructure and innovation
- Consultation – financing growth in innovative firms
 - availability of long term finance
 - barriers faced by companies seeking to access patient capital
- Should the tax system be geared to encourage investors to make longer term investments?

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

Capital allowances

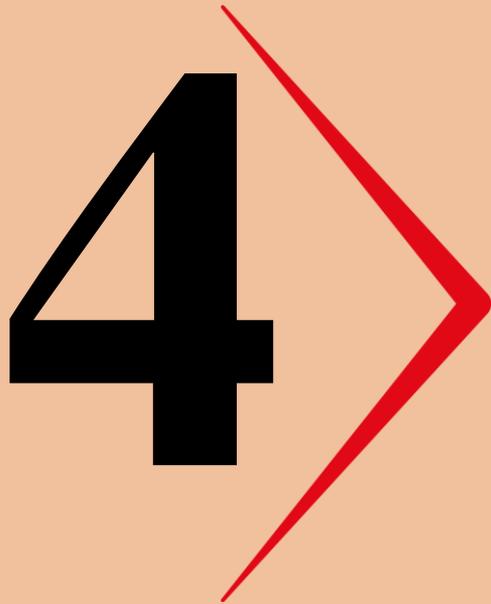
- From 1 January 2016 Annual investment Allowance is £200,000 per annum for lifetime of parliament
- Writing Down Allowances at 18% (main pool) and 8% (special rate pool)
- 100% First Year Allowances available on low emission cars and energy saving technologies
- NO capital allowances where using the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

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
- Consultation re reverse charge in construction sector to minimize fraud risk
- OTS VAT simplification review



Personal tax

*A reminder of recent changes –
for reference*

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

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** 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

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

Property income

- Finance restrictions from 6 April 2017
 - Can only claim 20% of finance costs as a tax relief
 - Means taxable income increased impacting on HICB, PSA, SRB, PA, pension annual allowance restriction, tax credits
 - Phased in from 6 April 2017 in tranches of 25%
- MTD – stay of execution until at least 2020
- Property income to be calculated on a cash basis from 6 April 2017 unless elect otherwise

Property – cash basis

- Applies from 6 April 2017
- Keep overseas and UK property businesses as separate business
- Cash basis by default
- Same basis for all UK property business and same basis for all overseas property business but they can be different
- Jointly owned property, each owner reports separately
- Other than husband and wife, where must report on same basis, joint owners can independently opt out of cash basis

Pensions

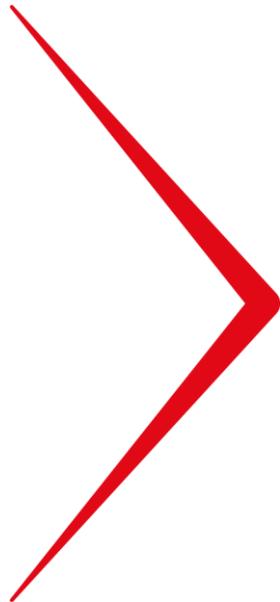
- Maximum allowable contribution from 2014/15 is £40,000pa
- Restricted to a minimum of £10,000 if threshold income > £110,000 or adjusted income > £150,000 (from 2016/17)
- Annual allowance reduced if pensions already accessed flexibly
 - £10,000 from 2015/16
 - £4,000 from 2017/18 (confirmed last month)
- From 6 April 2017
 - Employers can fund up to £500 for pensions advice, previously £150 and advice more restricted
 - Members can withdraw up to £500 from pension fund for advice on up to three occasions, only once in a tax year

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>



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questions?*

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Free webinars

Time management
9 October **10.00am**
lcaew.com/bamoctwebinar

Graphs – clarity and impact in your documents and slides
18 October **12.30pm**
lcaew.com/lunchoct

Brexit – update and impartial clarification
25 October **12.30pm**
lcaew.com/lunch2oct

Trends in fraud – minimise your risk
1 November **12.30pm**
lcaew.com/lunchnov2

Statistics for business – use of stats to detect fraud
15 November **12.30pm**
lcaew.com/lunchnov

Economic update
22 November **10.00am**
lcaew.com/bamnovwebinar

Free event

*Technological advances –
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21 November
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