



SME taxation – update

19 October 2016



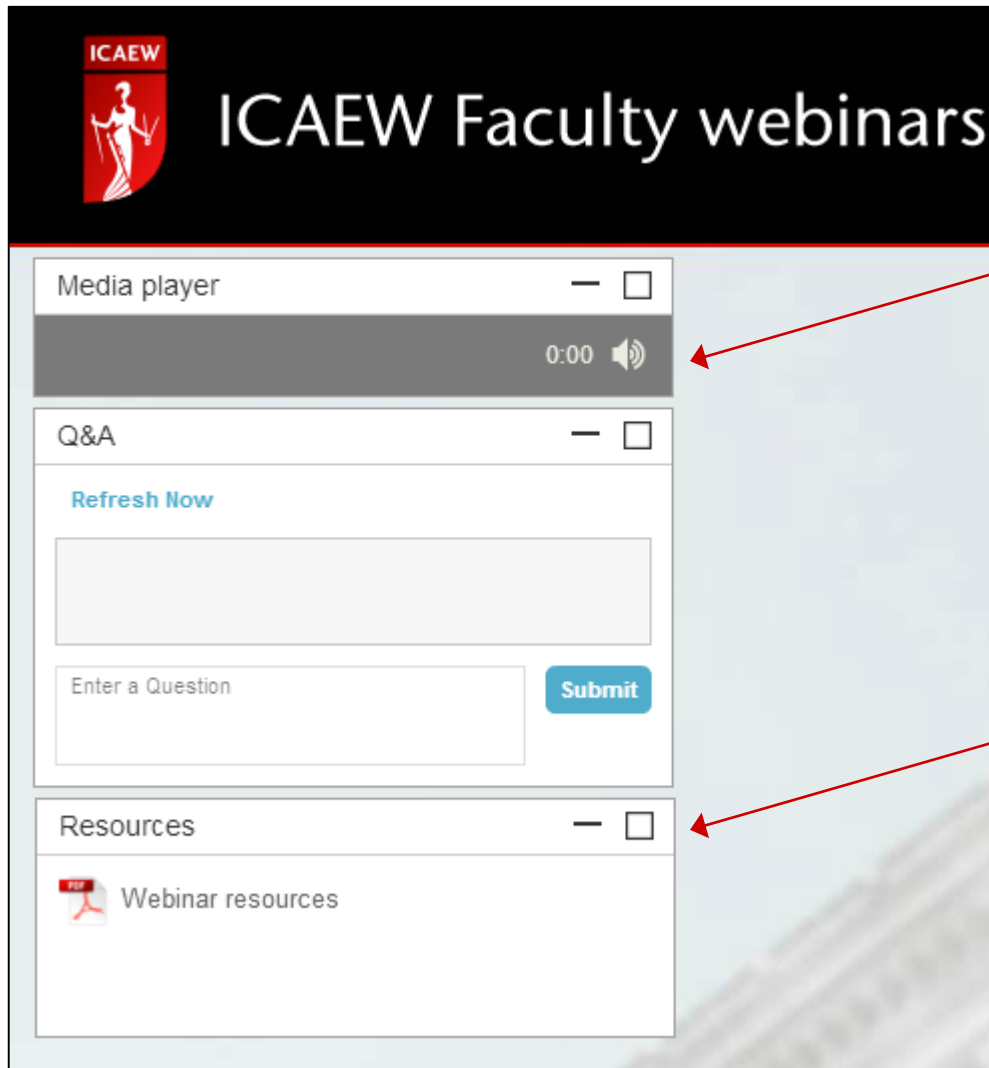


FINANCE &
MANAGEMENT
FACULTY

Faculty sponsor



Ask a question or download resources



The screenshot displays the ICAEW Faculty webinars interface. At the top is the ICAEW logo and the title 'ICAEW Faculty webinars'. Below this are three main sections: a 'Media player' section with a progress bar at 0:00 and a volume icon; a 'Q&A' section with a 'Refresh Now' link, a text input field labeled 'Enter a Question', and a 'Submit' button; and a 'Resources' section with a 'Webinar resources' link. Red arrows point from the text on the right to the volume icon in the media player and the 'Resources' section.



Audio problems?

- Ensure your volume is turned on
- If you experience poor sound quality you may benefit from refreshing your page

Download resources here

Today's presenters



Anita Monteith
ICAEW Tax Faculty



Sarah Ghaffari
ICAEW Tax Faculty

Making tax digital consultations

Six consultations published 15 August 2016

<https://www.gov.uk/government/collections/making-tax-digital-consultations>

Closing date 7 November

- 1 – Bringing business tax into the digital age
 - 2 - Simplifying tax for unincorporated businesses
 - 3 – Simplified cash basis for unincorporated property businesses
 - 4 – Voluntary pay as you go
 - 5 - Tax administration
 - 6 – Transforming the tax system through better use of information
- Large businesses and corporates remain a work in progress

What does a digital tax system mean?

- Digital tax accounts updated from accounting software, third party reports and by direct entry
- Information and interactions on all taxes in one place
- Updates on a more regular basis replacing tax returns
- Checking of information in tax accounts - end of year declaration
- Options for payment and time to pay
- Simplifications being considered to facilitate digital reporting
- HMRC taking a more targeted approach to information and support

Making tax digital = Making business digital

The key elements

- Businesses REQUIRED to keep digital records
- Businesses to update HMRC quarterly with summary data
- The annual taxable profit calculation
- Commencement for income tax from April 2018
 - Consultation seeks views on options for transition
- Commencement for VAT from April 2019
- Commencement for corporation tax from April 2020

<http://www.icaew.com/en/technical/tax/tax-faculty/tax-webinars>

Employment tax

- Real Time Information (RTI) update
- Car benefits
- Payrolling benefits
- Exemption for trivial benefits
- Employing the young
- Intermediaries

RTI

- Basic requirement to make a submission to HMRC on or before the time a payment is made to an employee
- Penalties may apply where
 - the Full Payment Submission (FPS) is late, or
 - a different number of FPSs than expected are submitted for a tax month, or
 - where no employer payment summary (EPS) is submitted when no employees were paid in a tax month
- Penalty notices are issued quarterly
- Must pay the penalty within 30 days to avoid being charged interest

RTI late filing penalties

- How much you're charged depends on how many employees you have
- If you're over 3 months late you can be charged an additional penalty of 5% of the tax and National Insurance that you should have reported

Number of employees	Monthly penalty
1 to 9	£100
10 to 49	£200
50 to 249	£300
250 or more	£400

RTI – no penalties in some circumstances

- First failure in the tax year to send a report on time (doesn't apply to annual schemes)
- The 3 day late filing penalty easement applies
 - will continue until 5 April 2017
 - applies for employers who file their full payment submission within 3 days of the stated payday
- New employers who send their first FPS within 30 days of paying an employee

RTI – the specified charge

- Late or non-submission of an FPS or a nil payment employer payment summary (EPS), may result in HMRC raising a 'specified charge'
- An estimate of how much PAYE HMRC thinks the employer should pay
 - based on the employer's previous PAYE payment and filing history
- Employers can view their specified charges on PAYE account online
- The specified charge does not replace the need for an FPS or EPS to be submitted
 - Must submit the missing FPS or EPS to replace the charge(s) with the amount that is due for each month

Car benefits

- Appropriate percentages continue to increase

	2014/15 BIK%		2015/16 BIK%		2016/17 BIK%		2017/18 BIK%		2018/19 BIK%		2019/20 BIK%	
CO2 g/km	petrol	diesel	petrol	diesel	petrol	diesel	petrol	diesel	petrol	diesel	petrol	diesel
0 (EV)	0	0	5	5	7	10	9	12	13	16	16	19
1-50	5	8	5	8	7	10	9	12	13	16	16	19
51-75	5	8	9	12	11	14	13	16	16	19	19	22
76-94	11	14	13	16	15	18	17	20	19	22	22	25
95-99	12	15	14	17	16	19	18	21	20	23	23	26
145-149	22	25	24	27	26	29	28	31	30	33	33	36
150-154	23	26	25	28	27	30	29	32	31	34	34	37

- 3% diesel supplement will be retained until 2021
- 3% differential between the 0-50 and 51-75g CO₂/km bands and between the 51-75 and 76-94 CO₂/km bands

Payrolling benefits

The cash equivalent of the benefit is treated as additional gross pay for PAYE

- Income tax is deducted to arrive at take home pay
- Usually only Class 1A NIC so no employees NIC
- Employer
 - must still file a P11D(b) - by 6 July
 - calculates and pays the Class 1A NIC on payrolled and non-payrolled benefits - by 19 or 22 July
 - only fills in a P11D for any non-payrolled benefits
 - must inform employees of cash equivalents of payrolled benefits by 31 May
- Making good by the employee must be within the tax year (except fuel, which is by 1 June)
- See HMRC's detailed guidance at tinyurl.com/TX-BIK

What can the new rules apply to?

- In 2016/17, the tax on all benefits can be collected by payrolling the benefit except for
 - Vouchers
 - Credit cards
 - Living accommodation
 - Interest free and cheap loans
- From 6 April 2017 non-cash vouchers and credit tokens can be payrolled

How can employers use the new rules?

- Must register with HMRC before the start of the tax year
 - Say which employees and which benefits
 - HMRC can't process requests in-year
- Must apply by 5 April 2017 for 2017/18

Other payroll changes

From 6 April 2016

- All dispensations are abolished
- General exemption for allowable paid and reimbursed expenses
 - Expenses reimbursed
 - Scale rates allowed for travel and subsistence
 - Meal allowance rates £5, £10, £25 (SI 2015 No. 1948)
- The £8,500 'lower paid' threshold is abolished
 - New board and lodging exemption for carers
- A new statutory exemption for trivial BIK,
 - Upper limit per BIK of £50
 - Close company directors and families subject to a £300 cap
- Changes to several more areas are in the pipeline

Employing young people

- From 6 April 2015, new 0% rate of employer NIC applies to earnings paid to a worker under the age of 21
 - No limit to number of under 21s you can employ
- From 6 April 2016, new 0% rate of employer NIC applies to earnings paid to a 'relevant apprentice', ie an apprentice under the age of 25
- Don't forget the Employment Allowance

Apprenticeship Levy

- New tax starting in April 2017
 - Applies to every employer
 - Calculated as 0.5% of the 'paybill' in each pay period
 - There will be a levy allowance of £15,000 pa (ie payroll of £3m approx)
 - Only one levy allowance per group
 - Apportionment may be needed
 - Will be given at the rate of £1,250 per month
 - Practical problems remain unresolved
- New scheme will allow employer's levy payments to be stored in their earmarked account with the Skills Funding Agency, topped up by 10%, and available to draw digital vouchers to pay accredited training providers (....train more ACAs)

Intermediaries

- Intermediaries are not just employment agencies

Personal service companies, partnerships, individuals. Also managed service companies

- From 6 April 2014, workers under supervision, direction or control may be within the agency rules s44-47 ITEPA 2003 and so have to go on the payroll
 - requirement for personal service has gone
 - exception if all the income is paid out as employment income
- New intermediaries reporting requirements from April 2015
 - Workers who are not subject to PAYE (need a minimum of 2)
 - New penalties from the August 2016 filing deadline
- New travel and subsistence rules from 6 April 2016
- Are you doing work for public sector bodies?

Corporation tax

- CT rates:
 - 2016 – 20%
 - 2017 – 19%
 - 2020 – 17% (further 1% reduction)
- Capital allowances
 - Annual investment allowance set at £200k
 - But with rates falling – less relief!
- Loss relief
 - Open up the use of b/f losses (if incurred from 1 April 2017) i.e. offset against other income and in group
 - Restricting use of b/f losses (profits exceed £5m) – similar to rule for banks

Corporation tax payments

- Quarterly instalments due in months 7, 10, 13 and 16
- Summer Budget 2015 announced accelerated payments of corporation tax for large businesses (profits > £20m)
- Instalments now due months 3, 6, 9 and 12
- Businesses not aware
- Implementation date delayed to 1 April 2019

Close companies

- Rates of tax have changed on close company loans (known as s455 tax)
- Rate increased to 32.5% in line with changes to dividend taxation (later)
- FRS 102 – loans to company's at non-market rates
- Account for loan at amortised cost using “market rate of interest”
- Tax implications for “notional interest”
- ICAEW guidance

Pensions

Tapering of annual allowance

- Annual allowance = £40,000
- If “income” exceeds £150,000
- For every £2 of income above £150,000 £1 of annual allowance is lost
- Minimum allowance = £10,000
- Remember b/f annual allowance

Capital gains tax reliefs

Entrepreneurs' relief

- 10% rate of CGT on qualifying disposals
- disposal of shares in personal trading company ('ee and own at least 5%)
- unincorporated business
- Must hold asset for 12 months prior to sale
- NEW targeted anti-avoidance rule (TAAR)
 - “serial entrepreneurs” – extract funds as capital rather than income
 - Capital sums will be taxed as income

Capital gains tax reliefs

Investors' relief

- 10% rate of CGT on disposal of shares
- Hold for three years
- NOT an employee
- No minimum or maximum shareholding required

Capital gains tax reliefs

Enterprise investment scheme

- 30% income tax relief on purchase
- No CGT if shares held > 3 years
- CGT if sold < 3 years (and IT relief clawed back)

Seed enterprise investment scheme

- 50% income tax relief on purchase
- No CGT if shares held > 3 years
- CGT if sold < 3 years (and IT relief clawed back)

Taxation of interest and dividends

Savings income

- Deposit interest no longer taxed at source
- New personal savings allowance
 - £1,000 if basic rate tax payer
 - £500 if higher rate tax payer
 - £nil if additional rate tax payer

Dividend income

- Abolition of grossing up and 10% tax credit
- £5,000 nil rate band for everyone
- Dividends > £5,000 taxed at new rates
- 7.5%, 32.5%, 38.1%

Illustration 1

Mike has salary of £42,000 and interest of £1,000 in 2016/17.

- Basic rate tax payer
- Personal Savings Allowance is £1,000

Illustration 1

Mike has salary of £42,000 and interest of £1,000 in 2016/17.

	NSI	SI
	£	£
Salary	42,000	
Interest		1,000
Dividends		
PA	(11,000)	
Taxable	31,000	1,000

Illustration 1

Mike has salary of £42,000 and interest of £1,000 in 2016/17.

	NSI	SI
	£	£
Salary	42,000	
Interest		1,000
Dividends		
PA	(11,000)	
Taxable	31,000	1,000
BRB: £31,000 x 20%	6,200	Nil
PSA: £1,000 x 0%		Nil

Illustration 2

Mike has salary of £42,000 interest of £1,000 and £20 of dividends in 2016/17.

- Higher rate tax payer
- Personal Savings Allowance is £500

Illustration 2

Mike has salary of £42,000 interest of £1,000 and £20 of dividends in 2016/17.

	NSI	SI	DI
	£	£	£
Salary	42,000		
Interest		1,000	
Dividends			20
PA	(11,000)		
Taxable	31,000	1,000	20

Illustration 2

Mike has salary of £42,000 interest of £1,000 and £20 of dividends in 2016/17.

	NSI	SI	DI
	£	£	£
Salary	42,000		
Interest		1,000	
Dividends			20
PA	(11,000)		
Taxable	31,000	1,000	20
BRB: £31,000 x 20%	6,200	Nil	
PSA: £500 x 0%		Nil	
BRB: £500 x 20%		100	
HRB: £20 x 0%			Nil

Property taxes

- Rent a room relief increased to £7,500
- Changes to wear and tear allowance
- Changes to relief for interest costs
- Stamp duty:
 - Moved away from “unfair” slab system to the slice system
 - Additional 3% stamp duty for second properties

Wear and tear

- Wear and tear allowance – relief given at 10% for furnished rental properties
- Wear and tear allowance abolished 6/4/16
- New relief introduced – cannot claim tax relief on initial cost but replacement of asset is allowable
- Must be “substantially the same”

Interest

- Previously, interest on loans to buy properties = allowable expense
- New rule phased in over three years = disallowable
- By 2020/2021 tax relief will be capped at 20% (basic rate tax) as tax reducer
- First impact will be **31 January 2019**
- Phased in as follows:
 - 2017/18: 75% of costs allowable
 - 2018/19: 50% of costs allowable
 - 2019/20: 25% of costs allowable
- No change to rules for corporates

Stamp duty land tax (SDLT)

- SLAB system now abolished and slice system applies for commercial properties
- 3% SDLT added to rate for individuals on second property (second home or buy to let)

Inheritance tax (IHT)

- Residential nil rate band = £1m
 - (Nil rate band £325k + RNRB £175k) x 2 for a married couple
- Deaths in 2017/18 and later
- Starts at £100,000 and increases by £25,000 each year to maximum of £175,000 in 2020/21
- Restricted for estates over £2m
- Transferable like the NRB
- Must be left to direct descendant
- Downsizing relief available



Future webinars & events

Free faculty webinars

Cost transformation with Hackett Group

Tuesday 22 November 10am

lcaew.com/fmfnovwebinar

Options for risk control when trading in overseas currencies

Wednesday 14 December 10am

icaew.com/fmfdecwebinar

Money laundering and fraud – steps FDs must take

Thursday 17 November 12:30pm – 1pm

lcaew.com/nov2webinar

Free faculty events

The seven steps to business growth

9 November

lcaew.com/fmfnovent

THANK YOU FOR ATTENDING

Contact the Tax Faculty

 +44 (0)20 7920 8646

 taxfac@icaew.com

 icaew.com/taxfac

Contact the Finance & Management Faculty

 +44 (0)20 7920 8508

 fmfac@icaew.com

 icaew.com/fmfac

Please take the time to complete our short survey