



# SME taxation – update

19 October 2016



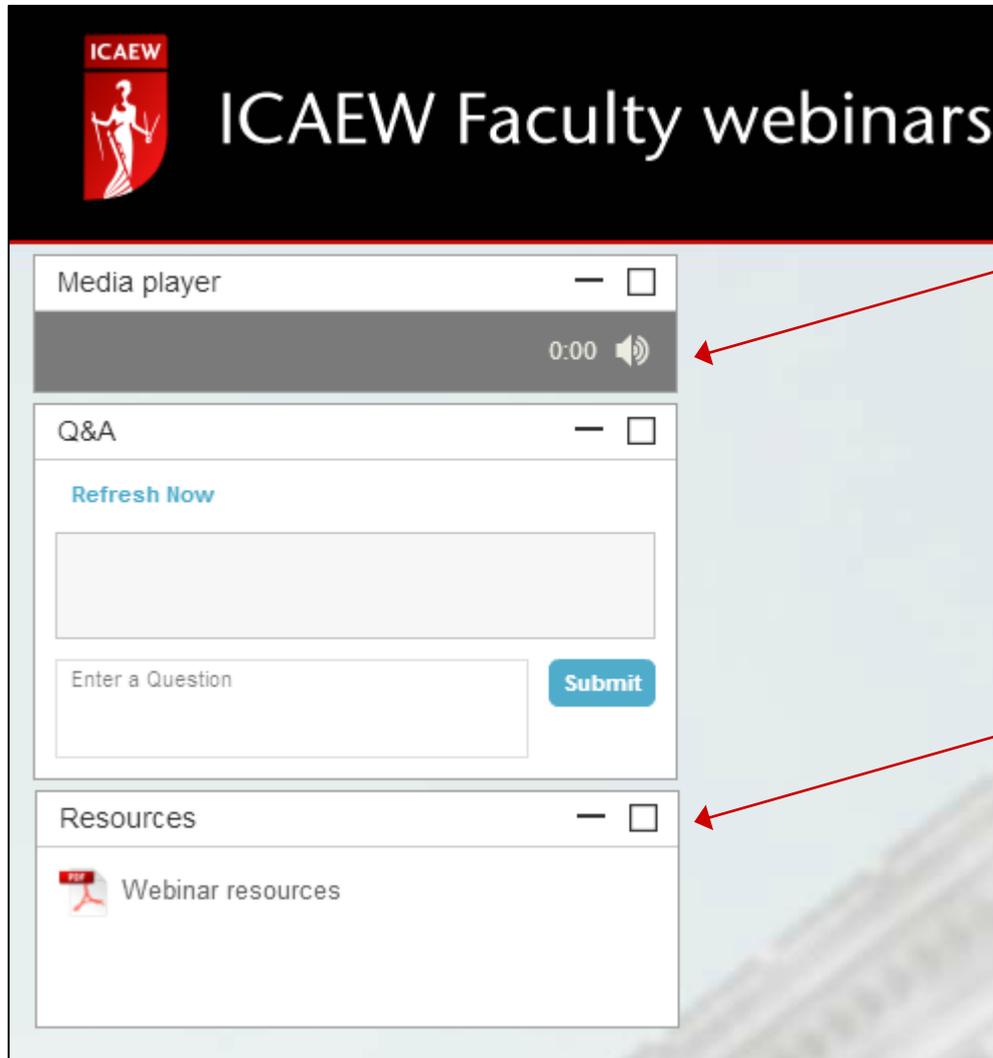


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# Today's presenters



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

<b>Number of employees</b>	<b>Monthly penalty</b>
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										
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 CO<sub>2</sub>/km bands and between the 51-75 and 76-94 CO<sub>2</sub>/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](http://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.

	<b>NSI</b>	<b>SI</b>	<b>DI</b>
	£	£	£
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](http://lcaew.com/fmfnovwebinar)

*Options for risk control when trading in overseas currencies*

*Wednesday 14 December 10am*

[icaew.com/fmfdecwebinar](http://icaew.com/fmfdecwebinar)

*Money laundering and fraud – steps FDs must take*

*Thursday 17 November 12:30pm – 1pm*

[lcaew.com/nov2webinar](http://lcaew.com/nov2webinar)

## Free faculty events

*The seven steps to business growth*

*9 November*

[lcaew.com/fmfnovent](http://lcaew.com/fmfnovent)

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