Davis & Co.
New Forest Accountants

Spring 2017

Newsletter

Welcome to our Spring 2017 Newsletter.

Well what a year it's been since our last Newsletter! The Country voted for Brexit, and only last month Article 50 was invoked. What impact that will have on business is still unknown, however, we are monitoring closely and will update you will any relevant information when it becomes available.

As always, we have tried to include as much as we can in this Newsletter, and for that reason apologise for its length. We have covered a variety of topics in the Newsletter, which we feel are relevant to our clients and hope you will find the contents useful, as well as interesting and informative. As for the Government's plan for 'simplifying tax', well I think you will agree that the length of our Newsletter this years, shows that to be misnomer!

From a personal point of view, we have had another very good year, with a large number of new clients, nearly all from word of mouth and recommendations, which is great, as it means we must be providing a good service. Between Laura and I we are still trying to make sure the office is manned during office hours, however, we hope you all appreciate that with a family run business that is not always possible. Before we know it the children will be old enough to help in the office!

Income Tax Rates:

The basic personal allowance will increase from £11,000 to £11,500 from 6th April 2017. The basic rate band increases to £33,500 and the higher rate threshold will rise to £45,000 in 2017/18 tax year. This excludes Scotland where the lower threshold is £31,500 and the higher rate threshold is £43,000 for the 2017/18 tax year.

A reminder that not everyone has the benefit of the full personal allowance. There is a reduction in the personal allowance for those with 'adjusted net income' over £100,000, which is £1 for every £2 of income above £100,000. So for 2016/17 there is no personal allowance where adjusted net income exceeds £122,000. For 2017/18 there will be no personal allowance available where adjusted net income exceeds £123,000. Contact us for advice on planning to avoid this 60% rate.

Tax Bands and Rates – Dividends:

Dividends received by an individual are subject to special tax rates. The first £5,000 of dividends are charged to tax at 0% (the Dividend Allowance).

Dividends received above the allowance are taxed at the following rates:

- 7.5% for basic rate taxpayers
- 32.5% for higher rate taxpayers
- 38.1% for additional rate taxpayers.

Dividends within the allowance still count towards an individual's basic or higher rate band and so may affect the rate of tax paid on dividends above the £5,000 allowance. To determine which tax band dividends fall into, dividends are treated as the last type of income to be taxed.

Please note that the Dividend Allowance will be reduced from £5,000 to £2,000 from April 2018.

Personal Tax Account:

The government are celebrating the 'first birthday' of their award winning Personal Tax Account which recently won Digital Project of the Year at the annual UK IT Industry Awards.

HMRC have announced that in its first year, the Personal Tax Account has attracted more than seven million users and there have been millions of transactions including:

- 1.6 million Income Tax repayments, worth more than £800 million
- 1 million tax credit renewals
- 100,000 people checking or updating their company car details
- 1.6 million people checking their tax estimate
- 2 million people checking their state pensions.

The press release also states that the Personal Tax Account is designed to be one stop shop for all customer interactions with HMRC and taxpayers using it can:

- check their state pension
- complete and return a Self Assessment Tax return
- update tax credits circumstances as they change throughout the year to prevent under and overpayments
- claim an Income Tax refund that will be paid straight into their bank account
- check and update their Marriage Allowance.

If you would like advice on your personal tax affairs please contact us.

Universal Credit:

Universal Credit is a state benefit designed to support those on low income or out of work. An individual's entitlement to the benefit is made up of a number of elements to reflect their personal circumstances. Their entitlement is tapered at a rate of 65% where claimants earn above the work allowances. The current taper rate for those who claim Universal Credit means their credit will be withdrawn at a rate of 65 pence for every extra £1 earned. From April 2017, the taper rate that applies to Universal Credit will be reduced from 65% to 63%.

Claim the Marriage Allowance:

If you are married or in a civil partnership, you may qualify for the marriage allowance. This is not an extra allowance, but a transfer of 10% of your personal allowance to your spouse. This amounts to £1,150, equivalent to a tax reduction of £230, for 2017/18.

This extra allowance is useful if you don't have enough income to use all your personal allowance, and your partner is paying tax. Also, if you are paying tax at 7.5% on dividends but your partner pays tax at 20% on earnings. But to qualify for the marriage allowance, neither of you must pay tax at a rate higher than 20%.

The person who wishes to transfer 10% of their allowance must make an application on their tax return, or online through the gov.uk website, or by calling HMRC. The recipient of the marriage allowance can't make a claim, they have to wait for HMRC to reallocate the extra allowance. Once an online claim for the marriage allowance has been put in place for one year, it should apply for all later years, until you tell HMRC to stop.

If either of you were born before 6 April 1935 you may be better off claiming the married persons allowance.

HMRC figures show that of the 4.2m people eligible for the allowance, just 1.67m have claimed it since its launch in April 2015.

Tax Credits and Benefits:

No increases in child tax credit, working tax credits or child benefits have been announced.

Savings:

Premium Bonds:

The premium bond investment limit remains the same at £50,000, per individual, so a couple has a total investment limit of £100,000.

Personal Savings Allowance:

The personal savings allowance will apply to up to £1,000 of a basic rate taxpayer's savings income and up to £500 of a higher rate taxpayer's savings income each year. The personal savings allowance will not be available to additional rate taxpayers. It remains to be seen whether it will apply to foreign interest. As part of these reforms, HMRC will introduce automated coding out of savings income that remains taxable through the PAYE system. This will mean tax would no longer be deducted at source. The personal savings allowance will be in addition to the tax advantages currently available to savers from Individual Savings Accounts.

Help to Buy ISA's:

The government has introduced the Help to Buy ISA, which provides a tax free savings account for first time buyers wishing to save for a home.

The scheme will provide a government bonus to each person who has saved into a Help to Buy ISA at the point they use their savings to purchase their first home. For every £200 a first time buyer saves, the government will provide a £50 bonus up to a maximum bonus of £3,000 on £12,000 of savings.

Help to Buy ISAs are subject to eligibility rules and limit, which include:

- An individual is only be eligible for one account throughout the lifetime of the scheme and it is only available to first time buyers.
- Interest received on the account will be tax free.
- Savings are limited to a monthly maximum of £200 with an opportunity to deposit an additional £1,000 when the account is first opened.
- The government will provide a 25% bonus on the total amount saved including interest, capped at a maximum of £3,000 which is tax free.
- The bonus will be paid when the first home is purchased
- The bonus can only be put towards a first home located in the UK with a purchase value of £450,000 or less in London and £250,000 or less in the rest of the UK.
- The accounts are limited to one per person rather than one per home so those buying together can both receive a bonus.

Once an account is opened there is no limit on how long an individual can save into it and no time limit on when they can use their bonus.

Savings......continued:

The New Lifetime ISA:
From 6 April 2017 any adult under 40 will be able to open a new Lifetime ISA. They can save up to £4,000 each year and will receive a 25% bonus from the government for every pound they put in, up to the age of 50. Funds can be used to save for a first home worth up to £450,000 or for retirement. Various rules and restrictions apply.

Individual Savings Accounts (ISA's):
Changes to the Individual Savings Account (ISA), has been announced by HMRC, and this will effect anyone with an ISA, including children with a Junior ISA.

The changes include increasing the amount that can be saved in an ISA or a Junior ISA. The subscription limit for ISA in the tax year 2017 to 2018 will be £20,000, and the subscription limit for a Junior ISA during the same period will be £4,128. The measure also includes minor updates to the ISA and Junior ISA rules to accommodate changes to other legislation.

The measure supports savers and ensures that children and families have access to suitable tax-advantaged savings products that meet their needs.

The government announced at Budget 2016 that the annual ISA subscription limit would be increased from £15,240 to £20,000 from 6 April 2017.

The government announced at Autumn Statement 2016 that the annual Junior ISA subscription limit would be increased from £4,080 to £4,128 from 6 April 2017.

The ISA regulations will be updated to increase the overall ISA annual subscription limit (currently £15,240) to £20,000 and the Junior ISA subscription limit (currently £4,080) to £4,128.

Other minor updates will also be made to the ISA regulations, for example to take account of changes to other legislation referred to in these regulations concerning the regulation of certain financial institutions, child protection and terminal illness.

Rent a Room Scheme:

HMRC's Rent a Room Scheme is still a very good way to bring a little extra money into your household without incurring tax. The Scheme only applies to owner occupiers and tenants who receive rent from letting furnished accommodation in their only or main home.

From 6th April 2016, if your gross receipts (before expenses and including any amounts received for meals, goods and services provided, such as cleaning or laundry) and any balancing charges do not exceed £7,500 (£4,250 in 2015/16) you will be exempt from Income Tax on any profits made. You can however, opt out of Rent a Room, and you may want to do this if you have made a loss.

If your gross receipts are more than £7,500 (£4,250 in 2015/16) you can choose between paying tax on:

- your actual profit (gross rents minus actual expenses and capital allowances), or
- gross receipts (and any balancing charges) minus £7,500 (£4,250 in 2015/16) – with no deduction for expenses or capital allowances.

Rent a Room relief applies to a tax year and the limit of £7,500 (£4,250 in 2015/16) is reduced to £3,750 (£2,125 in 2015/16) if during the basis period someone else received income from letting accommodation in the same property.

Rent a Room does not apply to income from accommodation used as an office or for business other than by genuine lodgers (for example, students who are provided with study facilities in their lodgings, or lodgers who do some work in your home in the evenings or weekends).

If a taxpayer does not normally receive a tax return, and receipts are below the £7,500 limit, the exemption applies automatically, so nothing further need be done. If the receipts are above the limit HMRC must be notified that rental income is being received and that rent-a-room relief is being claimed. This should be done by submitting a tax return by 31 January following the end of the tax year in which the rents are received. For example, if a room is being let during the summer of 2016, a tax return for 2016/17 should be submitted by 31 January 2018.

Landlords to Receive Less Tax Relief on Interest:

In a change that will impact residential landlords, the amount of income tax relief available on residential property finance costs will be restricted to the basic rate of income tax. This change will mean that landlords will no longer be able to deduct all of their finance costs from their property income. They will instead receive a basic rate reduction from their income tax liability for their finance costs.

The restriction in the relief will be phased in over a four-year period as follows:

- in 2017/18, the deduction from property income will be restricted to 75% of finance costs, with the remaining 25% being available as a basic rate tax reduction
- in 2018/19, 50% finance costs deduction and 50% given as a basic rate tax reduction
- in 2019/20, 25% finance costs deduction and 75% given as a basic rate tax reduction
- from 2020/21, all financing costs incurred by a landlord will be given as a basic rate tax reduction.

These rules do not apply to residential properties held in companies or furnished holiday lettings. The restrictions apply to any interest and finance costs and so would also limit mortgage application fees and interest costs on loans to buy fixtures or furniture.

In addition rules may further restrict the relief which is due where the individual's property income or total income is less than the amount on which basic rate relief is due. The computation is complex so please do get in touch if you would like us to review your position.

When thinking of investing in a new residential property, careful consideration should be given to the amount of tax relief to decide on the viability of taking on a new loan.

Property and Trading Income Allowances:

From April 2017, the government will introduce new £1,000 allowances for property and trading income. Individuals with property or trading income below £1,000 will no longer need to declare or pay tax on that income. Those with income above the allowance will be able to calculate their taxable profit either by deducting their expenses in the normal way or by simply deducting the relevant allowance. The trading allowance will also apply to certain miscellaneous income from providing assets or services. Any income which attracts rent-a-room relief will not be eligible for either of the allowances.

State Pensions and Benefits:

State Pension and benefit rates were announced in November 2016. Some key points are:

- The full basic and full new State Pension will be increased by 2.5% to £122.30 and £159.55 respectively.
- Other elements of the State Pension and disability benefits such as Attendance Allowance will rise by 1% in line with the rise in the Consumer Price Index (CPI).
- The standard rate of Pension Credit guarantee for a single person will be increased to £159.35, or for couples to £243.25, in line with the rise in average earnings.
- The majority of working-age benefits, such as Jobseeker's Allowance, will be unchanged. They are frozen at their 2015–16 levels for four years following the Welfare Reform and Work Act 2016.

The current State Pension age for men is 65. For women it is gradually increasing from 60 to 65 and is currently 63 and nine months. State Pension age will be increasing from 66 to 67 between 2026 and 2028. There will also be five-yearly reviews to look at State Pension age after that.

Use the gov.uk State Pension calculator to find out your State Pension age.

Lifetime Pension Allowance:

Changes to pension rules in recent years mean now could be a good time to revisit your retirement saving plan. One important change which has been overlooked by many savers is the reduction of the pension lifetime allowance from £1.25 million to £1 million from April 2016. The lifetime allowance will then be indexed annually in line with CPI from 6 April 2018. There is no change to the annual allowance, which remains at £40,000. This means you may need to review your pensions if you are concerned about a potential tax charge.

Check your NI record:

The amount of state pension you receive on retirement depends on how many full years for which you have paid National Insurance Contributions (NIC). You can check your NI record at www.gov.uk/check-nationalinsurance-record, or request a print by phone or by email. Self-employed individuals have to pay a flat rate of class 2 NIC and a separate class 4 NIC, which is based on the taxpayer's annual profits. For many years, class 2 NIC was paid weekly to the Department of Social Security or at the Post Office. Since 1996 it has been collected by the Inland Revenue, now HMRC. If you didn't pay class 2 NIC, you may have a significant gap in your NI record. Although class 4 NIC is generally a larger annual payment, it provides the payer with no entitlement to state benefits or pension. You can fill gaps in your NI record for the last six tax years, and you may be eligible to claim NI credits for other years.

Capital Gains Tax (CGT):

The annual exempt amount rises for 2017/18 from £11,100 to £11,300. The rates of tax are unchanged at 10% (total income and gains within the taxpayer's basic rate limit) or 20% (gains above the basic rate limit) on assets in general, but 18% or 28% on residential property that is not eligible for the main residence exemption.

Most trusts enjoy half the annual exempt amount (£5,650) and pay tax at 20% or 28% on chargeable gains.

No other changes were announced to CGT.

Are You or Have You Been Self-Employed?

A recent case lays out some of the historic problems with the state pension. The taxpayer was both employed and self-employed between 1965 and 2013 when he retired. He was dissatisfied with his state pension on retirement and queried his NIC record. As a result he was sent a full breakdown of the NIC paid during his career. He queried a number of matters on that breakdown, including the periods of nil payment in 1993/94 to 1996/97.

The taxpayer appealed his NIC record from 1965 to 2013, on various grounds including:

> it was the obligation of HMRC to send him statements showing NIC due
> he was submitting income tax returns for the same period and the Inland Revenue and National Insurance Contributions Agency must have shared the information.

The Tribunal, in summary, held that the onus was on the taxpayer to have sorted things out during his working life and that he had limited ability to do anything at the point of retirement.

Beware of Social Media!!

HMRC are still routinely checking Facebook & other Social Media and are catching people out!! Watch what you put on your status if you're on FB or other such Media's:

Such as "*had a brilliant day selling, been on amazing expensive holiday to Barbados, Lots of School Trips for children, paying a fortune for my Daughters' Wedding*"

These are all the things they are looking at, and they will be seeing if your lifestyle fits your earnings, and can use this as a reason to check your business affairs.

Inheritance:

Inheritance Tax (IHT) Threshold:
The IHT threshold remains at £325,000 for 2017/18, and is set to remain frozen at this amount until April 2021. Chargeable lifetime transfers are initially charged at 20%.

Gifts:
Annual gifts of up to £3,000 per donor are exempt. You can give as many gifts of up to £250 to as many people as you want. Although not to anyone who has already received a gift of your whole £3,000 annual exemption. None of these gifts are subject to Inheritance Tax.

For Wedding gifts to be effective for inheritance tax purposes, it has to be made before, not after, the wedding and the wedding has to happen, and it has to be:

Given to a child and is worth £5,000 or less>
Given to a grandchild or great-grandchild and is worth £2,500 or less.
Given to another relative or friend and is worth £1,000 or less.

Gifts between husband and wife are generally exempt, if both are UK domiciled. It may be desirable to use the spouse exemption to transfer assets to ensure that both spouses can make full use of lifetime exemptions, the nil rate band and PETs.

Charitable Gifts:
A reduced rate of IHT applies where 10% or more of a deceased's net estate (after deducting IHT exemptions, reliefs and the nil rate band) is left to charity. In those cases the 40% rate will be reduced to 36%.

Lifetime gifts fall into one of three categories:

- a transfer to a company or a trust is immediately chargeable
- exempt gifts which will be ignored both when they are made and also on the subsequent death of the donor, eg gifts to charity
- any other transfers will be potentially exempt transfers (PETs) and IHT is only due if the donor dies within seven years of making the gift. It might therefore be more advisable to regard them as potentially chargeable transfers.

IHT Residence Nil Rate Band:
Legislation has already been enacted to introduce an additional nil rate band for deaths on or after 6 April 2017, where an interest in a main residence passes to direct descendants.

The amount of relief is being phased in over four years; starting at £100,000 in the first year and rising to £175,000 for 2020/21. For many married couples and civil partners the relief is effectively doubled as each individual has a main nil rate band and each will potentially benefit from the residence nil rate band.

The additional band can only be used in respect of one residential property, which does not have to be the main family home, but must at some point have been a residence of the deceased. Restrictions apply where estates are in excess of £2 million.

Where a person dies before 6 April 2017, their estate will not qualify for the relief. A surviving spouse may be entitled to an increase in the residence nil rate band if the spouse who died earlier has not used, or was not entitled to use, their full residence nil rate band. The calculations involved are potentially complex but the increase will often result in a doubling of the residence nil rate band for the surviving spouse.

It is possible for spouses and civil partners to transfer the nil rate band unused on the first death to the surviving spouse for use on the death of the surviving spouse/partner. On that second death, their estate will be able to use their own nil rate band and in addition the same proportion of a second nil rate band that corresponds to the proportion unused on the first death. This allows the possibility of doubling the nil rate band.

No action should be taken though in this regard without consulting the detailed legislation or seeking professional advice.

Non-UK domiciles:

A number of changes are to be made from 6 April 2017:

- for individuals who are non-UK domiciled but who have been resident for 15 of the previous 20 tax years or
- where an individual was born in the UK with a UK domicile of origin and resumes UK residence having obtained a domicile of choice elsewhere.

Such individuals will be classed as 'deemed' UK domiciles for income tax, CGT and IHT purposes. For income tax and CGT, a deemed UK domicile will be assessable on worldwide arising income and gains. They will not be able to access the remittance basis. For IHT, a deemed UK domicile is chargeable on worldwide assets rather than only on UK assets.

Legislation will allow a non-UK domiciled individual who has been taxed on the remittance basis to transfer amounts between overseas mixed fund bank accounts without being subject to the offshore transfer rules.

This will allow the different elements within the accounts to be separated, thereby allowing clean capital to be remitted to the UK in priority to income and gains.

The draft legislation also provides that the market value of an asset at 5 April 2017 will be able to be used as the acquisition cost for CGT purposes when computing the gain or loss on its disposal where the asset was situated outside the UK between 16 March 2016 and 5 April 2017. This will apply to any individual who becomes a deemed UK domicile in April 2017, other than one who is born in the UK with a UK domicile of origin.

Non-UK domiciles who set up an overseas resident trust before becoming a deemed UK domicile will generally not be taxed on any income and gains retained in that trust and the trust remains non chargeable property for IHT purposes. However, there are a number of changes which modify the tax treatment on the occurrence of certain events for settlor interested overseas asset trusts.

Child Benefit Clawback:

Don't forget that if you receive Child Benefit and either you or your partner has income in excess of £50,000, you are required to complete a Self Assessment Tax Return in order to calculate how much of the Child Benefit you have received and may have to pay back.

If you or your partner earns £60,000 or over and this is not likely to change, you may want to consider stopping receiving Child Benefit all together, thus avoiding the requirement to submit a Tax Return or pay back the Benefit. However, if your income is between £50,000 and £60,000 or your income fluctuates, you should continue to receive the Benefit and be prepared to pay back what you owe via Self Assessment.

The clawback is 1% of child benefit for each £100 of adjusted net income between £50,000 and £60,000.

You can choose to stop or restart your Child Benefit at any time. Use the Child Benefit tax calculator to work out how income changes affect the tax charge.

Long-Term Implications of Child Benefit:

Child benefit is paid to parents of young children in the UK, if they claim it. Some higher earning parents don't claim the benefit, as they know it will be clawed-back as a tax charge. However, not claiming child benefit can disadvantage both the parent and the child in the long term.

Claiming child benefit, whether it is actually paid or not, ensures the parent receives national insurance (NI) credits for periods when they aren't working or claiming job seekers allowance, whilst the child is under twelve.

To receive the full state pension, the parent needs to have paid NI, or received NI credits, for 35 tax years. The NI credits from child benefit help plug the gap in the NI record which may be created when one of the parents stays at home to care for the child. Both parents need to build up a complete NI record, as the new flat-rate state pension is not paid based on a spouse's NI contributions.

Long-Term Implications of Child Benefit……..continued:

The claim also creates a dormant NI record for the child: at the age of fifteen years and nine months, they are allocated an NI number. Where child benefit hasn't been claimed, the individual needs to apply for an NI number before they can work, open an ISA or receive a student loan.

To avoid these difficulties, the child benefit should be claimed as soon as possible after the child's birth. Where the parent expects that the benefit will be clawed-back as a tax charge, they should tick a box on the claim form to receive a nil payment. They can reverse this at any time; however, a benefit claim can only be back-dated for up to three months.

Phased Rollout of Tax-Free Childcare:

The Treasury, along with HMRC and the Department for Education, has published a new guide, 'Tax-Free Childcare: 10 things parents should know'.

This states that the scheme will be launched from April 2017 and will be rolled out gradually to families, with parents of the youngest children able to apply first.

It is available for children up to the age of 12, and will also be available for children with disabilities up to the age of 17, as their childcare costs can stay high throughout their teenage years.

All eligible parents will be able to join the scheme by the end of 2017. They will be able to open an online account, which they can pay into to cover the cost of childcare with a registered provider. This will be done through the government website, gov.uk.

For every 80p paid in, the government will top up the account with 20% of childcare costs up to a total of £10,000 - the equivalent of up to £2,000 support per child per year (or £4,000 for disabled children).

To qualify, parents will have to be in work, and each earning around £115 a week and not more than £100,000 each per year.

Phased Rollout of Tax-Free Childcare……continued:

Unlike the current scheme employer-supported childcare, the new scheme does not rely on employers making the option available, which the government says means double the number of families will be able to benefit.

In addition, self-employed parents will be able to get support with childcare costs, unlike the current scheme. To support newly self-employed parents, there will be a 'start-up' period during which self-employed parents will not have to earn the minimum income level.

The scheme will also be available to parents on paid sick leave and paid and unpaid statutory maternity, paternity and adoption leave.

Parents and others, including family members and employers, can pay money into the childcare account as and when they like, building up a balance for periods where more childcare is needed such as over the summer holidays.

The guidance says there will be a light-touch process for parents using the scheme who will need to re-confirm their circumstances every three months via the online system, and there will be a simple log-in service where parents can view accounts for all of their children at once.

If family circumstances change, or parents no longer want to pay into the account, then they will be able to withdraw the money they have built up. If they do so, the government will withdraw its corresponding contribution.

Alongside the new scheme, the current employer-supported childcare scheme will continue and there is no obligation for parents to switch to tax-free childcare. The current scheme will remain open to new entrants until April 2018, and parents already registered by this date will be able to continue using it for as long as their employer offers it.

Making Tax Digital for Business (MTDfB):

Extensive changes to how taxpayers record and report income to HMRC are being introduced under a project entitled Making Tax Digital for Business.

The new regime, which is set to be introduced between 2018 and 2020, will require businesses and individuals to register, file, pay and update their information via a secure online tax account.

The government has decided how the general principles of MTDfB will operate. Draft legislation has been issued on some aspects and more will be published in Finance Bill 2017. Under MTDfB, businesses, self-employed people and landlords will be required to:

- maintain their records digitally, through software or apps
- report summary information to HMRC quarterly through their 'digital tax accounts' (DTAs)
- make an 'End of Year' declaration through their DTAs.

DTAs are like online bank accounts – secure areas where a business can see all of its tax details in one place and interact with HMRC digitally.

Exemptions:
Businesses, self-employed people and landlords with turnovers under £10,000 are exempt from these requirements.

Changes Announced in the Budget:
The government has now announced a one year deferral from the mandating of MTDfB for unincorporated businesses and unincorporated landlords with turnovers below the VAT threshold. For those that have turnovers in excess of the VAT threshold the commencement date will be from the start of accounting periods which begin after 5 April 2018.

Some Good News for Companies:

There was some welcome news from Philip Hammond's Autumn Statement for small and medium sized companies regarding the tax relief available if a company makes a loss.

Historically, corporation tax loss reliefs have mirrored the principles upon which income tax loss reliefs have been based – if a loss is incurred in a trading business, those losses can be offset against other types of income arising in the same year as the loss, and may be carried back against income of the previous year. But if a loss is not relieved at that point, the use of a carried forward loss is generally restricted to being used against future profits from the same trade only.

Changes are proposed which will mean that losses arising on or after 1 April 2017, when carried forward, will be useable against profits from other income streams or other companies within a group. This will apply to most types of losses but not to capital losses. The removal of the restrictions on the use of carried forward losses is very welcome. The existing rules can result in losses not being used, particularly where a company closes down a loss making trade.

There are some elements of the change which may be unwelcome for large companies. From 1 April 2017, companies will only be able to use losses carried forward against up to 50% of their profits above £5 million. For groups, the £5 million allowance will apply to the group. It should be noted that this restriction applies to losses carried forward arising at any time. However over 99% of companies will be unaffected by these restrictions due to the £5 million allowance.

Company Secretary Role:

We are still reviewing and notifying clients that have only a single Director and no Company Secretary, or where there are Husbands and Wives as either both Directors or one a Director and one as Company Secretary.

This is because a scenario has been identified where a problem can arise with a Company operated by a sole Director with no Company Secretary. The scenario is that the Director can either pass away suddenly or become incapacitated, in a coma for example, and leave this Company without anyone authorised to operate the Limited Company in relation to Companies House. Therefore the Company in effect could not operate until either a Will had been settled, or a Power of Attorney secured.

It has also been highlighted that this could also occur where the only officials in a Company are Husband and Wife (or Partners). This is because there is a higher chance of you both being together if there was a car accident or an accident on holiday, then there would be if it was two non-related individuals were acting for the Company.

As this has been brought to our attention, we are notifying all affected clients. We do offer a Company Secretary Service, and this is already the case for a large number of our clients. Davis & Co, have no authority to sign or undertake any responsibilities, and take control or run the Company on your behalf, it is purely a measure to ensure that someone authorised is always available to deal with Companies House on behalf of the Company.

Corporation Tax Rate:

As announced previously, the main rate of corporation tax will reduce to 19% from 1st April 2017, and remain at this level for the 2018/19 and 2019/20 tax years. The planned reduction in the main rate to 17% for the financial year commencing 1 April 2020 remains unchanged.

Corporate Tax Loss Relief:

Currently, a company is restricted in the type of profit which can be relieved by a loss if the loss is brought forward from an earlier accounting period. For example, a trading loss carried forward can only relieve future profits from the same trade. Changes are proposed which will mean that losses arising on or after 1 April 2017, when carried forward, will be useable against profits from other income streams or other companies within a group. This will apply to most types of losses but not to capital losses.

However, from 1 April 2017, large companies will only be able to use losses carried forward against up to 50% of their profits above £5 million. For groups, the £5 million allowance will apply to the group.

Limited Liability Partnerships:

HMRC are still viewing a partner in a limited liability partnership (LLP) as not automatically being regarded as self-employed.

Depending on the nature of the partner's work, he or she may be regarded as an employee, which means that their earnings must be paid through the payroll with PAYE and national insurance deducted.

Employers' Insurance:

As soon as a person becomes an employer they must obtain employers' liability insurance from an authorised insurer.. The policy must include cover of at least £5m, which will cover compensation if an employee is injured or becomes ill because of their work. If insurance is not obtained, the employer may be fined up to £2,500 for every day you are not properly insured. However, this insurance may not be required if employees are family members or are based abroad. The certificate of insurance must be displayed, subject to a fine of up to £1,000 for failure to do so or to produce a certificate when requested.

Cash Basis for Unincorporated Businesses:

The government is also extending the cash basis option for the self-employed and trading partnerships. The cash receipts threshold for being able to move to the cash basis will increase from the current £83,000 to £150,000 and the threshold for having to move back to the accruals basis will increase to £300,000 from April 2017.

Currently, the rules for the calculation of profits under cash basis accounting do not allow a deduction for expenditure of a capital nature, unless that expenditure qualifies for plant and machinery capital allowances under ordinary tax rules. This results in taxpayers needing to consider whether items are capital in nature, and whether they qualify for capital allowances. New rules will be introduced that list types of expenditure which will or will not be allowed as a tax deduction. This will come into effect from the 2017/18 tax year.

Cash Basis for Unincorporated Landlords:

As part of the wider proposals for Making Tax Digital, the government has decided that, from April 2017, many unincorporated property businesses will compute taxable profits for the purposes of income tax on a cash basis rather than the usual accruals basis. The cash basis means a business will account for income and expenses when the income is received and expenses are paid. The accruals basis means accounting for income over the period to which it relates and accounting for expenses in the period for which the liability is incurred.

For affected property businesses, the cash basis will first apply for the 2017/18 tax year which means that a tax return for 2017/18, which has to be submitted by 31 January 2019, will be the first one submitted on the new basis.

Not all property businesses will move to the cash basis:

- property businesses will remain on the accruals basis if their cash basis receipts are more than £150,000
- there is an option to elect out of cash basis accounting and to use accruals basis instead
- the cash basis does not apply to property businesses carried out by a company, an LLP, a corporate firm (ie a partner in the firm is not an individual), the trustees of a trust or the personal representatives of a person.

<u>Construction Industry Scheme (CIS):</u>

Subcontractor Verifications:

HMRC had previously announced that they planned to make CIS verifications to become mandatory, and that from April 2017, contractors must use an approved method of electronic communication to verify their subcontractors.

This now comes into effect from April 2017 and HMRC will no longer accept any telephone calls to verify subcontractors and from then you must verify subcontractors using the free <u>HMRC CIS online service</u>, or <u>commercial CIS software</u>.

This change is one of a series of improvements HMRC have made to CIS to increase efficiency and accuracy, and to reduce administration. These have also included the ability to amend returns online, and the addition of an online message/alert service.

Travel Expenses for Workers Paid Under CIS:

If a worker is paid within PAYE as an employee it is right and proper that his employer pays the costs of his getting to jobs in the course of his working day, or if he is sent to work away from home, the costs of travelling around the country. If a worker is self-employed he is in business on his own account. He should be pricing for work and the price should include the costs of everything involved in that job. If the employer pays travel on top of an hourly rate or daily rate the whole thing begins to look like false self-employment (The employer is demonstrating that he thinks he is responsible for travel costs). So expect enquiries, and trouble, if you pay CIS worker travel costs, and remember that you **must** apply CIS deductions to everything you pay to CIS workers. You cannot pay the travel costs gross on the basis that it is a simple refund of cost expended. You are claiming that these workers are self-employed, so their travel costs are their own business, and all their receipts should be taxed as one sum.

Should you feel that you may be involved within the scope of the Construction Industry and that the CIS Scheme may affect you, please contact us straightaway, as severe penalties can be levied for non-compliance.

IR35 Reform in the Public Sector:

This change impacts contractors working in the public sector. From 6 April 2017 all public sector bodies will be responsible for determining the IR35 status of any limited company contractors providing service to them. The business which makes payment to the limited company (end client or agency) will then be responsible for ensuring that PAYE is withheld from payments made to any limited companies who fall inside IR35 – based on the public sector bodies conclusion.

Contractors working in the private sector will not see any changes to the current IR35 regime.

If you have a contract within the public sector, it will no longer be your decision as to whether you comply with IR35 from 6 April 2017. Should the public sector body you are working for determine that the assignment is subject to IR35, your limited company will receive a payment which is net of PAYE. Therefore, what you are paid by the recruiter or public sector client (less any VAT), is yours to draw out of the company and spend however you want i.e. all tax due (except VAT) will have been paid at source. This for many contractors will result in a reduction in take home pay of up to 20%.

VAT:

VAT Registration & De-Registration Thresholds:

The taxable turnover threshold, which requires a person to register for VAT, will be increased from £83,000 to £85,000 per year from 1 April 2017. The threshold below which a VAT-registered person may apply to deregister will be increased from £81,000 to £83,000 per year.

VAT Rates remain unchanged, so the standard rate is 20% and the reduced rate is 5%.

Should I Register or Deregister for VAT:

It's good practice to step back and review your business at least once a year. Ask yourself where you expect your sales to come from in the next twelve months. If your projected annual turnover is less than £83,000 (excluding VAT), you may want to consider cancelling your registration.

To do this, pick a date from which the deregistration will take effect, such as the last day of the month or quarter. This can't be any earlier than the day on which you apply to HMRC to deregister. You won't be able to reclaim VAT on anything you buy after the deregistration date, so it pays to plan the date carefully.

If you have ceased to trade, you can deregister from the day you stopped trading, even if that was before you told HMRC.

If you feel you should either Register or Deregister, please let us know and we can confirm this for you and assist you with this.

Claim VAT on Pre-Registration Costs:

When you register your business for VAT, you can reclaim the VAT you paid on stock or assets acquired in the four years before the date of registration, if you still hold those assets on the registration day. You can also reclaim VAT incurred on services purchased for business purposes within six months before registration.

Suppose that you bought a new van for £24,000 (including £4,000 VAT) to use in your business on 1 December 2013. You register your business for VAT on 1 March 2017 and still own the van at that date. You can reclaim the full £4,000 of VAT you paid when you bought the van, although by March 2017 the van is over three years old. HMRC had been arguing that the VAT reclaimed on assets such as your van should be reduced to reflect the reduction in the asset's value between its purchase and the VAT registration day. This has been shown to be the wrong approach: all the VAT can be reclaimed.

If you reclaimed only a proportion of the VAT incurred on the purchase of assets acquired before becoming VAT-registered, you can amend your claim to recover the full amount, if less than four years have passed since your initial claim. It's worth checking your old receipts to see if there is additional VAT you can reclaim.

VAT Flat Rate Scheme changes:

The VAT Flat Rate Scheme (FRS) was designed to simplify the calculation of VAT due for small businesses. VAT is calculated by applying a predetermined flat rate percentage to the business turnover. The flat rate is lower than the 20% standard rate of VAT but businesses can't reclaim VAT on purchases except for certain capital assets over £2,000. The flat rates are determined according to the trade sector of the business and currently range from 4% to 14.5%.

As well as simplifying the calculation, the FRS may also save the business money, particularly if the business supplies services rather than goods. This is because businesses charge their customers VAT at 20% on the services they supply but only pay over VAT at the appropriate flat rate. If there are limited amounts of purchases made by the business, there is a relatively small loss of VAT reclaims on purchases and therefore an overall gain in using the FRS.

The government considers that some businesses with 'limited costs' are obtaining too much advantage in using FRS as, although they correctly use the flat rate appropriate to their trade sector, they have significantly lower costs than most small businesses in that sector. So a new flat rate of 16.5% for certain businesses with limited costs will be introduced from 1 April 2017.

The government estimates that of the 411,000 businesses using the FRS, 123,000 have limited costs and will be affected by these changes. A 'limited cost trader' is defined as one that spends less than 2% of its VAT inclusive turnover on goods in an accounting period. A business is also defined as a limited cost trader if its expenditure on goods is greater than 2% of its VAT inclusive turnover but less than £1,000 a year. There will be exclusions from the calculation to prevent attempts to inflate costs above 2%. So some businesses will need to perform calculations to determine whether the trade sector rate or the 16.5% rate applies.

The additional tax cost may result in some businesses choosing to either cease to operate the FRS, or opt to deregister from VAT altogether where they are under the VAT threshold.

If you are currently on a VAT Flat Rate Scheme, they you should have already received a letter from HMRC asking you about your costs percentages.

Please contact us if you are currently using the FRS and consider the new rate may apply to you. Also please contact us if you are not currently in the FRS and your VAT turnover is expected to be less than £150,000 (excluding VAT) in the next 12 months. You may find the FRS is of benefit to you.

Business Rates:

Business rates have been devolved to Scotland, Northern Ireland and Wales. The business rates revaluation takes effect in England from April 2017 and will result in significant changes to the amount of rates that businesses will pay.

The government announced £3.6 billion of transitional relief in November 2016. The Chancellor has now announced £435 million of further support for businesses. This includes:

- support for small businesses losing Small Business Rate Relief to limit increases in their bills to the greater of £600 or the real terms transitional relief cap for small businesses each year
- providing English local authorities with funding to support £300 million of discretionary relief, to
allow them to provide support to individual cases in their local area.

The government will also introduce a £1,000 business rate discount for public houses with a rateable value of up to £100,000, for one year from 1 April 2017. This is subject to state aid limits for businesses with multiple properties.

You should soon receive a notice of your new business rates for 2017-18. You may qualify for business rates relief such as relief for small business premises, small pubs, essential services in a rural area, agricultural or religious buildings, and buildings used by charities or by start-ups in enterprise zones. If the business rates relief hasn't been given where it is due, you should contact the local authority which issued the rates bill.

If the rateable value of your property seems to be wrong, then you can appeal to the Valuation Office Agency, which is a branch of HMRC.

Small Business Financial Decisions – FRS102 or FRS105?

In recent years, many companies have been preparing and filing 'small company accounts' under the Financial Reporting Standard for Small Entities (FRSSE). But now FRSSE has been withdrawn and small companies, or 'micro-entities', have a decision to make.

Small businesses must choose a new accounting standard
For financial years beginning on or after 1 January 2016, small companies which qualify as 'micro-entities' must make a choice:

- to use FRS 102, the same accounting standard as larger UK companies but using a reduced disclosure regime (section 1A), or
- to apply FRS 105, an alternative standard.

At a glance, FRS 102 introduces some significant accounting challenges including more widespread use of 'fair value' accounting. Whilst this could make FRS 105 seem more appealing, it may not be the best choice for the company.

Is your business a micro-entity?
To be classed as a micro-entity a company must meet two of the three size limits for two consecutive years. The limits are: turnover of £632,000; total assets of £316,000, and 10 or fewer employees (average over the year).
Certain financial services firms – such as credit institutions and insurers, and also charities – are excluded from qualifying. There are also special rules if the company is part of a group.

Simplified accounts
Accounts prepared under FRS 105 need only to consist of a simplified Profit & Loss Account, a Balance Sheet and two notes to the accounts. Note: the accounts filed at Companies House do not need to include the Profit & Loss Account.
Company law assumes that micro-entity accounts prepared in this way give a true and fair view. As such, the company does not need to add any further disclosure.
If the reduced disclosure regime under FRS 102 is chosen, extra disclosure may be required to ensure the accounts give a true and fair view.

Simpler accounting
For accounting purposes, FRS 105 is simpler than FRS 102. Of the numerous differences between the two standards, the three most significant are likely to be:

Small Business Financial Decisions – FRS102 or FRS105?..….continued:

Revaluation/fair value of assets
This is not permitted under FRS 105. FRS 102 allows (and sometimes requires) some assets to be assessed at fair value annually.

Not having to obtain regular fair values could be more convenient and less costly for the business. However, if the company is currently re-valuing properties, and has significant loans and debts against these properties, using FRS 105 would require them to re-value them at 'depreciated cost'. This could reduce the value of the balance sheet significantly.

Fewer intangible assets
Fewer intangible assets are recognised under FRS105. As an example, if the company acquires a business, the purchase price is divided between tangible assets and liabilities, and goodwill. The company would not need to identify separate individual intangible assets, such as customer lists and brand names. Internally-generated intangibles like development costs can also therefore not be treated as assets. Instead, costs such as these must be expensed through profits as incurred.

No more deferred tax
FRS 105 does not allow companies to recognise deferred tax whilst FRS 102 includes deferred tax more frequently than previously.

Still undecided?
Micro-entity accounts mean that that less financial detail is available about the company is to Companies House and in the public domain. This could be considered an advantage by Directors but we are waiting to see if this lack of information has a negative effect on company credit-ratings or the ability to obtain finance. In addition, company shareholders will also be less well informed by their members' accounts.

Company accounts can, of course, include more information than the statutory minimum. To ensure that directors have enough financial detail to make informed decisions in running the business, we can provide extra analysis of the company's position.

We want to ensure that directors are prepared and informed about the accounting choices for the company. To discuss Financial Reporting Standards for your business, please contact us.

Don't 'Err' in your Claim:

Entrepreneurs' Relief (ER) has been with us for many years and provides a valuable relief – only a 10% rate of capital gains tax on lifetime gains of up to £10 million. However, as with everything in the world of tax, there are always niceties to be observed in order to ensure that you qualify for ER.

HMRC have been criticised by Parliament for not checking enough ER claims and it appears that HMRC are now examining claims more closely. The main area which HMRC seem to be focusing on is ER claims on share disposals. Briefly, ER will apply to gains on disposals of shares in a trading company (or the holding company of a trading group) provided that the individual making the disposal: has been an officer or employee of the company, or of a company in the same group of companies, and owns at least 5% of the ordinary share capital of the company and that holding enables the individual to exercise at least 5% of the voting rights in that company. These two conditions must be satisfied throughout the year leading up to the disposal of the shares.

Two recent Tax Tribunal cases illustrate the dangers of failing to meet these criteria. In the first, the company concerned was formed in 1995 and the taxpayer was one of the founding shareholders and directors. In 2009 it was agreed that the company would purchase the majority of the taxpayer's shares. Provided certain conditions are satisfied such a transaction will be treated as equivalent to a sale of the shares by the shareholder and thus be treated as a capital gain.

It was also agreed that the taxpayer's employment would be terminated and that he would resign as a director. In May 2009 a general meeting approved the share buy-back. However, all the documents suggested that the employment had terminated as at February 2009. After opening an enquiry HMRC concluded that the taxpayer was not, throughout the period of one year ending with the disposal of his shareholding, either an officer or employee of the company and this was upheld by the Tribunal.

In the second case, two couples owned a company equally. The couple concerned owned 33% of the shares, with the balance being owned by the second couple, so at this stage they clearly met the 5% test. However, the problem arose when a loan of £30,000 by the other shareholders was converted into 30,000 new shares.

Don't 'Err' in your Claim……..continued:

HMRC argued that the taxpayers had not, throughout the period of one year ending with the date of the share sale, held at least 5% of the ordinary share capital of the company. This was because during part of that one year period, the ordinary share capital had included the 30,000 new shares, so that each of the taxpayers had held only 33 of 30,033 £1 shares - far less than the 5% of the ordinary share capital required by the ER legislation.

The Tribunal was persuaded that the new shares were not 'ordinary share capital' and so the taxpayers were not caught by the 5% rule. However, HMRC do not agree and have appealed the case to a higher court.

Of course, if either of the above problems are identified pre-sale, a further 'clean' 12-month period can be completed but, in reality, this may be easier said than done. ER is important to many but if you are unsure as to your current position or are contemplating a disposal in the near future, please do get in touch so that we can check you qualify.

Companies House Scam E-Mails:

Companies House are also still warning people to be suspicious of any unsolicited emails, even if they look like they're from a trusted source. Companies House will never ask you to disclose personal or payment information by e-mail.

If you have any doubt that an email you receive from Companies House is genuine, please do not follow any links, open any attachments, disclose any personal details or respond to it.

Companies House have also confirmed that it will never contact you via e-mail and have advised anyone who receives an e-mail claiming to be from Companies House to:

- not to click on any links or attachments
- forward it to phishing@companieshouse.gov.uk. and then
- delete it permanently.

Companies House is unable to investigate paper copies of suspicious e-mails / websites so you will need to forward the suspicious e-mails to the e-mail address shown above.

National Insurance:

Self Employed N.I.C.:

The main rate of Class 4 National Insurance Contributions (NICs) is currently 9%. It was announced that the rate will rise to 10% from 6 April 2018 and then to 11% from 6 April 2019. [NOTE - The government cancelled these rate increases shortly after the budget and after this update was originally written.]

As previously announced, Class 2 NICs will be abolished from April 2018.

Class 2 NIC System Error:

When the collection of class 2 NIC was transferred to the income tax Self Assessment system for 2015/16 onwards, most tax advisers assumed that the calculation of the class 2 NI liability would also be generated by the data included on the Self Assessment Return. This is not the case.

HMRC continues to run two separate computer systems which process data relating to self-employed taxpayers. The SA system processes information reported on income tax returns, and the national insurance and PAYE service (NPS) holds all the national insurance records, including those relating to class 2 NIC. The taxpayer's liability for class 2 NIC is based on the NPS record held under his NI number, not the information reported on his SA tax returns.

Insurance Premium Tax:

The standard rate of IPT will be increased from 10% to 12% with effect from 1st June 2017. The higher rate of IPT remains at 20%.

Attention Director-Shareholders - Profit Extraction Issues:

A key advantage of trading as a company is that the owners, who are generally both shareholders and directors, only suffer tax and NIC on any profits extracted from the company, so any profits retained in the company are sheltered from personal tax rates. If funds are required to reinvest into the business or to repay debt, the only immediate tax hit is the corporation tax charge of 20%.

Attention Director-Shareholders - Profit Extraction Issues…….continued:

However, we all need funds for our personal outgoings so there will be another level of taxation when the profits are extracted won't there? This is where planning comes into play. Dividends are often used in combination with remuneration to obtain the most tax effective extraction of profits when the business is carried on through a company. For many years it has been attractive to pay a small salary to allow the tax efficient use of the personal allowance, to provide a corporation tax deduction for the company but not to pay NIC. This means a salary of £8,060 in 2016/17, corresponding to the primary NIC threshold. The payment of this level of salary also provides a qualifying year entitlement to the state pension.

When the new tax regime for dividends is introduced on 6 April 2017 many director-shareholders will find that the tax bill on the dividends will be higher than is the case for the 2015/16 tax year. So does this change the strategy of low salary and the balance as dividends?

We now have draft legislation for the new regime which explains the finer points of the proposals and how the new £5,000 Dividend Allowance interacts with other tax rates. The Dividend Allowance does not change the amount of income that is brought into the income tax computation. Instead it charges the first £5,000 of dividend income at 0% tax - the dividend nil rate. This means that:

- the payment of low salary below the personal allowance will allow some dividends to escape tax as they are covered by the personal allowance
- the £5,000 allowance effectively reduces the available basic rate band for the rest of the dividend.

The practical effect of the new regime is that a strategy of low salary and the balance of income requirements taken as dividends will still be a tax efficient route for profit extraction for many director-shareholders. However, many will be paying more income tax.

Please do talk to us about the best strategy for Director-Shareholders in the new era of the taxation of dividends.

Silly Taxpayer Excuses from HMRC:-

HMRC have released some unusual excuses from taxpayers who failed to complete their self assessment tax return on time. These include:

1. 'My tax return was on my yacht…which caught fire'
2. 'A wasp in my car caused me to have an accident and my tax return, which was inside, was destroyed'
3. 'My wife helps me with my tax return, but she had a headache for ten days'
4. 'My dog ate my tax return…and all of the reminders'
5. 'I couldn't complete my tax return, because my husband left me and took our accountant with him. I am currently trying to find a new accountant'
6. 'My child scribbled all over the tax return, so I wasn't able to send it back'
7. 'I work for myself, but a colleague borrowed my tax return to photocopy it and lost it'
8. 'My husband told me the deadline was the 31 March'
9. 'My internet connection failed'
10. 'The postman doesn't deliver to my house'

With the self assessment submission deadline of 31 January now past and an automatic penalty of £100 for failing to submit your return on time, please contact us if you need help bringing your affairs up to date.

New Soft Drinks Industry Levy:

As announced at Budget 2016, the government will legislate for a Soft Drinks Industry Levy, with two thresholds at 5g and 8g of sugar per 100ml however, there will be an exclusion for small operators. The rates were announced at Spring Budget 2017 and will be 18p per litre (ppl) for the main rate and 24ppl for the higher rate.

The levy will take effect from April 2018.

Reactive Tax Codes:

HMRC is about to start updating tax codes more frequently from April 2017. This will help HMRC collect the tax due more quickly. Any underpayments of tax identified for 2016/17 will be collected through the 2017/18 tax codes. But the same tax codes will also be used to collect potential tax underpayments for 2017/18. As a result, the employee could experience a double hit on their 2017/18 PAYE code, and pay more tax in that year. However, no employee should have more than 50% of their earnings deducted through PAYE.

As an employer, you will have to deal with more PAYE codes being issued for your employees, and it will be important to keep up with those changes. Employees should be advised to contact HMRC directly if they don't agree with their tax code.

2016/17 PAYE Year End Dates:

5th April	End of current tax year. Full Payment Submission (FPS) with year-end PAYE information must be made under Real Time Information (RTI) in place of form P35, which is no longer required.
6th April	New Tax Year Starts.
19th April	Final submission must be made to HMRC under RTI for the year, including answering the "end of year questions". Deadline for postal payments remittance of PAYE, NICs and CIS to HMRC.
22nd April	Deadline for electronic payments to be cleared by HMRC for previous tax year
31st May	P60's to be given to all employees.
6th July	P11d's to be filed with HMRC
19th July	Class 1 A payment to reach HMRC (postal). Deadline for postal payments remittance of PAYE, NICs and CIS to HMRC.
22nd July	Class 1 A payment to reach HMRC (electronic)

Increases to National Minimum Wage / Living Wage & Penalties:

The National Minimum Wage (NMW) applies to all workers and is paid at different rates according to age. There is a separate rate for Apprentices and the National Living Wages (NLW) applies to workers aged 25 and over.

The hourly rates for the NMW & NLW from 1st April 2017 are:

Age	*Rate £*
25 and over	*7.50*
21 to 24	7.05
18 to 20	5.60
16 to 17	4.05
Apprentice	3.50

The financial penalty imposed on employers that fail to pay employees the NMW remains at up to 200% of the underpaid amount, with a maximum penalty of £20,000 per worker, and a minimum penalty of £100 per worker. The enforcement rule is the same for non-payment of the NLW.

Your business could also be publicly named if the amount due exceeds £100. The bad publicity generated by HMRC won't explain that the underpayment of NMW or NLW was due to an innocent mistake in the calculations – even if it was.

The government has now aligned the NMW and NLW cycles so that any future increases in rates will occur in April each year.

National Insurance Rates:

The HMRC have increased the NI thresholds for the 2016/17 tax year as follows:-

Class 1	£157.00 p.w
Class 2	£2.85 p.w.
Class 4	£8,164 p.a.

The chargeable rates are as follows:-

Class 1	12% for Employee 13.8% for Employer
Class 4	£8,164 - £45,000 at 9% £45.001 - Uncapped at 2%

National Insurance::

Employment Allowance:

For the 2017/18 tax year, employers will again be able to claim the £3,000 Employment Allowance, which is available to many employers for them to offset against their Class 1 National Insurance liability. This amount is claimed as part of your normal payroll process on a month to month basis. There are some exceptions to this scheme, for example covering nannies and household staff, and anyone under IR35 for personal service companies. Revenue has advised that there are still employers which have not claimed this benefit for the 2016/17 tax year. Unless you have employees, who earn of a level so that you pay Employers National Insurance Contributions on top of their salaries, then this allowance will not be of any benefit to you.

We have ensured that this benefit has been claimed by all our payroll clients, however, if you prepare your own payroll and are unsure if you have claimed, please get in touch and we will check for you.

Please be aware though, that HMRC are actively monitoring National Insurance Employment Allowance compliance following reports of some businesses using avoidance schemes to avoid paying the correct amount of NICs. The government will consider taking further action in the event that this avoidance continues.

National Insurance……..continued:

Employer NIC for the under 21s:

Employer NIC for those under the age of 21 are reduced from the normal rate of 13.8% to 0%. For the 0% rate to apply the employee will need to be under 21 when the earnings are paid. This exemption will not apply to earnings above the Upper Secondary Threshold (UST) in a pay period. The UST is set at the same amount as the UEL, which is the amount at which employees' NIC fall from 12% to 2%. The weekly UST is £827 a week and £43,000 per annum for 2016/17 (£866 per week and £45,000 per annum for 2017/18). Employers will be liable to 13.8% NIC beyond this limit. The employee will still be liable to pay employee NIC.

NIC for apprentices under 25:

From 6 April 2016 employer NICs are 0% for apprentices under 25 who earn less than the upper secondary threshold (UST) which is £827 per week and £43,000 per annum (£866 and £45,000 per annum for 2017/18). Employers are liable to 13.8% NIC on pay above the UST. Employee NICs are payable as normal.

An apprentice needs to:

- be working towards a government recognised apprenticeship in the UK which follows a government approved framework/standard
- have a written agreement, giving the government recognised apprentice framework or standard, with a start and expected completion date.

Employers need to identify relevant apprentices and generally assign them NIC category letter H to ensure the correct NICs are collected.

Employers need to ensure they amend the contributions letter when the apprenticeship ends or the employee turns 25.

Holiday Pay:

When calculating Holiday Pay, don't forget that some overtime pay now must be included in most holiday pay, following an Employment Appeal Tribunal decision in November 2014. Under the previous rules, it was only necessary to take basic pay into account when calculating holiday pay.

This follows an earlier ruling by the Court of Justice of the European Union (CJEU) that holiday pay should include commission and other elements of contractual variable pay such as shift allowances. That case involved a salesman who received a basic salary plus variable commission, which made up about 60% of his total remuneration. He therefore suffered financial hardship as a result of taking a holiday because he could not earn any commission while he was away from work. The CJEU said that the purpose of holiday pay is to put workers in the position they would have been if they had been at work. The tribunal ruled that holiday pay should include pay for non-guaranteed overtime; this is overtime that an employee must work if asked, but which the employer does not have to offer them. It is not clear whether the ruling covers voluntary overtime – which the employee can refuse.

There is a complication because the decision only applies to the four weeks (20 days) of paid annual leave that employers must provide under the Working Time Directive. Employers are still allowed to make payments at the lower, basic pay rate for the eight days of additional leave required under the Working Time Regulations 1998. This overturned an earlier decision that employees could choose which days would be covered by the Working Time Directive.

Unpaid / Paid Leave:

For Expectant Fathers / Partners:

Expectant fathers or partners of pregnant women now have the right to unpaid time off during working hours to accompany their wife or partner to two ante-natal appointments, of up to six and a half hours each. Employers may allow this time off with pay under the terms and conditions of employment, or allow employees to take annual leave, swap shifts or make up time.

The employer is not allowed to ask to see the appointment card, but is entitled to ask the employee to make a declaration stating the date and time of the appointment. Employees can also be asked to state in writing that they qualify through a relationship with the mother or child and that they are taking the time off to accompany the expectant mother to an antenatal appointment made on the advice of a designated healthcare professional.

For Adopters / Surrogacy Parents:

The main adopter will be able to take paid time off for up to 5 adoption appointments. The secondary adopter will be entitled to take unpaid time off for up to 2 appointments.
The right to 2 unpaid antenatal appointments will also extend to those who will become parents though a surrogacy arrangement, if they expect to satisfy the conditions for, and intend to apply for a Parental Order for the child. The rules for Fathers / Partners outlined above will apply.

Changes to Termination Payments:

Changes from 6 April 2018 will align the rules for tax and employer NICs by making an employer liable to pay NICs on any part of a termination payment that exceeds the £30,000 threshold. It is anticipated that this will be collected in 'real-time'. In addition, all payments in lieu of notice (PILONs) will be both taxable and subject to Class 1 NICs. This will be done by requiring the employer to identify the amount of basic pay that the employee would have received if they had worked their notice period, even if the employee leaves the employment part way through their notice period. This amount will be treated as earnings and will not be subject to the £30,000 exemption. Finally, the exemption known as foreign service relief will be removed and a clarification made to ensure that the exemption for injury does not apply in cases of injured feelings.

Tax Avoidance Schemes:

A change in the legislation which came into effect on 8 March 2017 is intended to ensure that promoters of tax avoidance schemes cannot circumvent the promoters of tax avoidance schemes regime by re-organising their business so that they either share control of a promoting business or put a person or persons between themselves and the promoting business.

This is achieved by introducing the term 'significant influence' into the control definition of the Finance Act 2014.

Also £820m tax avoidance clampdown, including action to stop businesses converting capital losses into trading losses and introduction of UK VAT on roaming telecoms services outside the EU is being implemented.

Contract of Employment / Written Statement:

If an employment lasts for at least a month, most employees are legally entitled to a written statement of the main terms and conditions of their employment. This should be supplied within two months. While details of sick leave and discipline and grievance procedures may be contained in other documents, the statement itself should be a single document and must contain information such as:

- the name of the employer and employee;
- the date that the employment or the period of continuous employment started;
- the job location;
- the pay and whether it's weekly, monthly etc;
- the working hours;
- the holiday entitlement;
- the job description / job title;
- the details of any collective agreement that directly affect the employee's conditions of employment.

This written statement is a legally binding agreement between an employer and employee, where an employee agrees to work for an employer for payment. It is evidence of the contract of employment.

Ideally, the statement should be provided when employment starts, but it must be provided within two months of starting work. Employers should note that failure to provide a certificate could ultimately result in the employee making a claim to an employment tribunal. If this is upheld, compensation of between two and four week's pay could be awarded. Employers should be aware of the potential adverse effect this may have not only on their relationship with that individual employee, but with other members of their workforce.

Changes to the valuation of Benefits in Kind:

The way many Benefits in Kind (BiK's) are valued is changing when an employee has a choice between cash and a BiK. This includes cash allowances (such as a car allowance), flexible benefit packages with a cash alternative, and salary sacrifice and salary exchange schemes (known as Optional Remuneration Arrangements – OpRAs).

From 6 April 2017, where an employee has a choice, the BiK will be valued at the higher of the cash foregone or the current taxable value, for both income tax and employer NICs (and employee NICs where a charge already exists). This applies to all BiK's, including currently exempt BiK's.

However, there are no changes to pensions, pension advice, childcare vouchers, workplace nurseries, directly contracted childcare, Cycle to Work, or cars with emissions of 75g CO_2/km or less.

Arrangements between an employee and employer, which are binding on both parties and entered into on or before 5 April 2017, are protected until the earlier of:

a variation in the terms of the BiK, or renewal of the contract, or
the employee changes employer, or 6 April 2018, or 6 April 2021
for cars (with emissions of more than 75g CO_2/km) and accommodation.

School fees will be protected until April 2021, for that child, if an arrangement is in place on or before 5 April 2017.
Separately, there will be a Call for Evidence on valuation of BiK's in general in the spring.

The P11D for 2017-2018 will be amended to include these changes. Payrolling employers will need to payroll the correct figure during the year including when an employee starts or as employees move into the new rules.

Official Interest Rate:

The Official Interest Rate remains unchanged at 3%. This rate is used to calculate a taxpayer's benefit-in-kind charge on beneficial loans, for example.

Mileage Rates:

We will have already had conversations with a number of you regarding your Motor Expenses and how best to claim these. We still strongly recommend keeping a mileage log where possible, detailing all miles undertaken for an on behalf of business matters. However, it is also still important to keep receipts for your motor expenses, as this enables us to calculate your most tax efficient claim.

The Mileage rates remain the same for the 2017/18 tax year:-

Car & Vans	45p per mile for first 10,000
	25p per mile for thereafter (up by 5p per mile)
Each qualifying passenger	
	5p per mile
Motor Cycles	24p per mile, irrespective of total miles
Bicycles	20p per mile, irrespective of total miles

Levies and charges for employers:

April 2017 brings the new Apprenticeship Levy and a new Immigration Skills Charge. Both are potentially payable annually and are designed to encourage employers to train the staff they need, rather than to recruit skilled workers from abroad.

Employers with annual payroll costs of £3 million or more will have to pay HMRC an additional 0.5% of their payroll as the Apprenticeship Levy. That money will go into a digital apprenticeship fund, which the employer can access from 1 May 2017 to pay for training and assessment for new apprentices. Arrangements in Scotland, Wales and Northern Ireland may be different, as education and training is a devolved issue.

Employers who do not pay the Apprenticeship Levy will be able to use the digital apprenticeship service to choose training providers and to advertise apprenticeship vacancies.

The Immigration Skills Charge only applies where permanent skilled workers are recruited from outside the European Economic Area. It is set at £1,000 per year per worker, with exemptions for graduate trainees. This charge is payable to the Home Office, not to HMRC.

Pay PAYE Electronically:

Do you still pay your PAYE by cheque? If so, you may have received a letter or call from HMRC asking you to switch to online or telephone banking, or to pay by debit or credit card.

We agree with HMRC that electronic payments are safer and more secure than sending a cheque through the post, as it avoids the risk of the physical cheque being intercepted and fraudulently cashed. However, electronic payments are also at risk of misdirection if you make a mistake when typing the bank details or payment reference.

Pay PAYE Electronically……..continued:

The easiest way to pay VAT is to set up a direct debit. This allows HMRC to take the amount due from your business bank account 10 days after the end of the month that follows the VAT quarter. The correct amount of VAT will be collected on time each quarter, if there are sufficient funds in the account, until you cancel the direct debit. However, you need to set up a new direct debit for each PAYE payment due, using the 13-character accounts office reference number, and enter the year and month for the particular payment. This is not worth the hassle. You need to remember to pay the PAYE due by the 22nd of each month, if you pay electronically, or by the 19th of each month if paying by cheque. Not all banks will allow an advance payment to be scheduled for a weekend or bank holiday, in which case the payment must be made on the preceding Friday. If your business pays less than £1,500 in PAYE per month, you can ask to pay the PAYE quarterly. We can make this request for you.

Please also remember that HMRC are continuing to chase PAYE contributions which have not been paid on time. It is therefore important to make payment on time if you do not want HMRC's debt enforcement to be on your case.

Direct Recovery of Debts on PAYE Debts:

The Direct Recovery of Debts (DRD) power allows HMRC to recover cash directly from the bank and building society accounts, and funds held in cash in Individual Savings Accounts (ISAs), of debtors who owe £1,000 or more – subject to certain safeguards.

DRD has been in operation for most of the main taxes since 2015 and from early 2017 has been expanded to include PAYE debts

For further information please see – Issue Briefing: Direct recovery of debts.

RTI Penalties:

Although HMRC have had the right to charge penalties to employers for late submission of monthly payroll information following the introduction of the Real Time Information (RTI) rules, we've only recently become aware that these penalty charges are now actually being raised. Clearly HMRC must now feel that employers have had enough time to get used to the new RTI regime and are not accepting excuses for non-filing/ late filing of returns any more.

So when would penalties be charged? Well …, you can get a penalty if:

- your Full Payment Submission (FPS) was late
- you didn't send in the expected number of FPSs
- you didn't send in an Employer Payment Summary (EPS) when you didn't pay any employees in a tax month

We would remind you that in order for your payroll submission to be treated as on time it needs to be filed prior to the date on the payslip, for example if you send in your wages for 28th February on 1st March this is treated as a late submission.

Normally the FPS must be submitted on or before the day the employees are paid, but there are some circumstances in which the FPS can be submitted up to 7 or 14 days later. For example, the FPS can be submitted within 7 days of the pay day if the employees' pay can't be calculated until the end of their shift, such as for harvest workers.

However, HMRC won't charge a penalty if:

- your FPS is late but all reported payments you have noted on the FPS are within 3 days of your employees' payday (this applies from 6 March 2015 to 5 April 2017). However please note that employers who persistently file after the payment date but within 3 days may be contacted or considered for a penalty
- you're a new employer and you sent your first FPS within 30 days of paying an employee
- it's your first failure in the tax year to send a report on time (note this doesn't apply to employers who register with HMRC as an annual scheme)

RTI Penalties……..continued:

As you can see from the figures below, the penalties can be quite punitive, particularly if you have a large number of employees, so best to make sure you file your FPS or EPS on time!

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

To make matters worse, if you're over 3 months late you can also be charged an additional penalty of 5% of the tax and National Insurance that you should have reported. And if you run more than one PAYE scheme, you can be charged penalties for each.

Please also remember that HMRC are continuing to chase PAYE contributions which have not been paid on time. It is therefore important to make payment on time if you do not want HMRC's debt enforcement to be on your case.

Auto Enrolment – How will it affect you?

Every employer with at least one member of staff now has new duties, including putting those who meet certain criteria into a workplace pension scheme and contributing towards it. This is called automatic enrolment and by now, if you are an employer, you will likely have received a letter from The Pensions Regulator explaining your obligations.

Communicate the changes:
Employers are required by law to write to all workers explaining what automatic enrolment into a workplace pension means for them. There are different information requirements for each category of worker. Make sure you have a strategy in place for briefing employees and plan how you will manage any queries that arise. A range of letter templates are available on the Pensions Regulator website to help employers fulfil their legal obligations.

Automatically enrol eligible jobholders:
Under the new regulations, employers are required to: provide information to the pension scheme about the eligible jobholder; give enrolment information to the eligible jobholder; and make arrangements to achieve active membership for the eligible jobholder. This should be carried out within the 'joining window' (the one-month period from the eligible jobholder's automatic enrolment date).

Register with the Pensions Regulator and keep records:
All employers will need to register online with the Pensions Regulator within four months of their staging date.
Employers must also keep specific records about their workers and their pension scheme(s).

Contribute to workers' pensions:
It has now been announced that the increase in contributions by Employers will increase to at least 3% on the qualifying pensionable earnings for eligible jobholders from 2019, if this change is approved by Parliament. Compulsory contributions will be phased in over a number of years. Employers are also required to make contributions for non-eligible jobholders who choose to opt in to the pension scheme.

Risks to consider - Failing to comply with regulations:
Small businesses which do not meet their auto-enrolment obligations in time, or are offering pensions which do not comply with regulations, can be hit with fines of up to £500-a-day (£10,000 for large businesses).

Auto Enrolment – How will it affect you?............continued:

Know your staging date and develop a plan:
Your 'staging date' is the date from which your auto-enrolment duties first apply. It is determined by the total number of people in your largest PAYE scheme, based on HMRC's records as at 1 April 2012. You can find out your staging date by visiting www.thepensionsregulator.gov.uk/staging.

Assess your workforce:
you will need to identify any eligible jobholders working for you. Automatic enrolment is required for those who:
are aged between 22 years and the state pension age have qualifying earnings above the earnings trigger for automatic enrolment (£10,000 in 2017/18)
are working or ordinarily working in the UK are not already a member of a qualifying pension scheme.

You will also need to consider whether you have an employer duty in relation to other types of workers including non-eligible jobholders and entitled workers.

Review your pension arrangements:
Decide on the type of pension scheme you will offer. Do you have an existing scheme that meets (or can be changed to meet) the Government's requirements, or will you need to set up a new one? You may also want to consider one of the four most common providers, which are Now Pensions, National Employment Savings Trust (NEST), Smart Pension or The Peoples Pension.

Not budgeting properly:
Unsurprisingly, the risk of not adequately preparing for auto-enrolment could see firms landed with pension bills they cannot afford, meaning cutbacks may have to be made elsewhere. Planning early is the way to avoid this added expense.

Encouraging staff not to join:
Employers are banned from offering incentives to their workers to opt out of an auto-enrolled pension. They are also not allowed to refuse to employ someone because they want to join the company pension scheme. The Pensions Regulator provides a whistleblowing facility to combat this and may issue penalties to those firms found breaching these rules.

Auto Enrolment – How will it affect you?...............continued:

Single Director Companies:

There is an exemption available for Companies whose only employee is a Director. It would appear that this can also be extended to Companies with more than one employee, as long as they are all Directors with no contract of employment and are member of the same family. If you believe this applies to you, please let us know and we can clarify for you.

Whatever your staging date, it is important to prepare for auto-enrolment in good time. If you want to you can enroll earlier and avoid the mad rush of everyone doing it at the same time. Further information for employers is available at www.thepensionsregulator.gov.uk.

We are able to put you in contact with a Pensions Advisor should you require assistance.

Pension Auto-Enrolment Penalties:

Automatic enrolment into workplace pensions has been rolling out across the UK since 2012 beginning with the largest employers in the country. The first batch of small and micro employers started to enrol in the scheme in mid-2015.

There are estimated to be 1.8 million small and micro employers in the UK. It is expected that all employers will be part of the scheme by early 2018.

Employers failing to comply with their auto-enrolment duties and missing their staging date can trigger statutory notices, fixed penalties and even court action. Staging dates are based on the size of an employer's PAYE Scheme as at 1 April 2012. Most small and micro employers will commence the process between 1 June 2015 ad 1 April 2017.

The Pensions Regulator has recently published a report on Automatic Enrolment – Compliance and Enforcement for the last quarter of 2016. The report highlights the fact that some employers have now received County Court Judgements (CCJ's) for a failure to pay their automatic enrolment fines. This can happen when the employers persistently ignores the penalty notices sent to them. There has also been an increase in the number of people appealing their fines at Tribunal and to date no employer has been able to show that they had a reasonable excuse for failing to comply.

Pension Auto-Enrolment Penalties………continued:

In the last quarter of 2016, 870 Escalating Penalty Notices (EPN's) and 2,919 Fixed Penalty Notices (FPN's) were issued by the Pensions Regulator. This brought the total number issued to date to 1,477 EPN's and 9,831 FPN's.

This report from the Pensions Regulator should give slow acting employers a further impetus to bring their compliance process up to date.

When was the last time you reviewed your Will?

Do you have any idea if your estate will have an inheritance tax liability when you die? How much will it be? Who will have to pay it?

Planning opportunities arise if:

- If you have assets that you would like to give away.
- If you have any interests in a business or company, or own agricultural property.
- If you have assets that you would like to gift, but are concerned that other parties may seek to control those assets against your wishes.

These and many other scenarios, particular to your circumstances, may be available. The key is to explore these planning strategies before the burden of responsibility for settling tax is passed to your executors, and ultimately, your family and beneficiaries.

HMRC Scam E-Mails:

HMRC are still warning taxpayers to be wary of the continuing e-mail phishing scams that claim to offer tax rebates in return for bank account details. They are still receiving thousands of reports of phishing scam e-mails every year.

HMRC states that it never contacts taxpayers via e-mail regarding a refund and advised anyone who receives an email claiming to be from HMRC:

- not to click on any links or attachments
- forward it to phishing@hmrc.gsi.gov.uk and then
- delete it permanently.

How to tell if an email is fraudulent:
As well as spelling mistakes and poor grammar, there are a number of things you can look out for to help you recognise a phishing/bogus e-mail. For example, look out for a sender's email address that is similar to, but not the same as, HMRC's email addresses. Fraudsters often have email accounts with HMRC or revenue names in them (such as refunds@hmrc.org.uk'). These email addresses are used to mislead you. However be aware, fraudsters can falsify (spoof) the 'from' address to look like a legitimate HMRC address (for example '@hmrc.gov.uk').

HMRC have published advice and examples of typical fake emails at:
www.hmrc.gov.uk/security/index.htm

How Long Do I Have To Keep Tax Records:

The length of time you need to keep tax records depends on the types of income you earn and the types of tax you are paying. A list of time limits is set out below:

Income Tax and Capital Gains Tax:

If you are not in business:
One year from the 31 January following the end of the tax year. For 2016-17, you would need to keep your records until 31 January 2019.

If you are in business – which includes rental income:
Five years from the 31 January following the end of the tax year. For 2016-17, you would need to keep your business and other tax records until 31 January 2023.

A company subject to Corporation Tax:
Six years from the end of an accounting period. For the year ending 31 January 2017 you would need to keep records until 31 January 2023.

VAT:
You should keep records for at least six years.

PAYE:
You should keep payroll records for three years after the end of a tax year. For 2016-17 this would be until 5 April 2020.

These deadlines can be extended if for example:

- You file your self-assessment tax return late
- A return is subject to an enquiry or compliance check
- Records relate to a transaction spanning more than one year
- An asset is bought which is expected to have a life beyond the time limit

The contents of this Newsletter reflects our understanding of the current Tax Law, which may change when the Finance Act goes through the House of Commons.

If any points arising from our Newsletter make you think of someone you know, please don't hesitate to let them know about us!

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