All Paul Limited

CHARTERED CERTIFIED ACCOUNTANTS

November 2017

Helping smaller businesses and their owners manage their accounting, business and taxation

The Autumn Budget 2017

Little change for smaller businesses

A short guide written by All Paul Limited for our smaller Owner-Managed Business clients on the taxation effects

Introduction

The Chancellor, Philip Hammond, has delivered his second Budget of the year, following the spring 2017 Budget. Most of the announcements of that earlier Budget were not passed as law before the June Election. It was only when the Conservatives returned to power and with the introduction of a second Finance Act of 2017 did most of the spring 2017 Budget actually become law.

Based on the speech you would be forgiven for thinking that there was hardly any tax in the Budget but, once again, the supporting documentation shows this to be far from the case.

I suppose the headline-grabbers were the Stamp Duty abolition for first-time buyers on properties worth up to £300,000, the removal of capital gains tax indexing for companies and the freezing of the VAT threshold, while its effectiveness is assessed.

It is also important to place this Budget in its international context. Not only the continuing and all-pervasive uncertainty over Brexit (more money being put aside for this) but also the international effort to tackle the impact of digitalisation on the tax system.

Key points

The key announcements for small businesses and their owners were:

- SDLT abolition for first-time buyers on properties worth up to £300,000.
- Dividend allowance cut from £5,000 to £2,000 from 6 April 2018.
- Removal of capital gains tax indexing for limited companies, making things the same as for individuals with capital gains.
- VAT thresholds frozen at £85,000 for the next two years, despite an anticipated significant reduction to bring the UK threshold in line with the rest of the EU.

Personal tax

Income tax: Rates and allowances

The Government has reaffirmed its commitment to increase the basic personal allowance to £12,500 and the higher rate threshold to £50,000 by 2020. For 2018-19 the personal allowance and the higher rate threshold will increase to £11,850 and £46,350 respectively. All of these changes are simply in line with CPI inflation. No changes were announced to the rates of Income Tax.

The £5,000 band of savings subject to the 0% starting rate is unchanged for 2018-19.

Benefit in kind exemption on charging electric cars

Employees who drive an electric car, and charge it at work, will not face benefit-in-kind tax charges where there is an element of private use of such cars.

Increase in benefit in kind for diesel cars

The diesel supplement rate to calculate the benefit in kind arising on private use of company cars is increased from 3% to 4%. This applied solely to diesel cars (not hybrid cars) registered on or after 1 Jan 1998 with no emission value or those which exceed RDE2 standard (80mg/km). The maximum percentage for cars including any diesel supplement will remain at 37%.

Personal tax (continued)

Increase in benefit in kind for cars and vans

From April 2018 the value of the taxable benefits will rise in line with the September 2017 RPI to:

- Flat rate van benefit charge will be increased from £3,230 to £3,350
- Flat-rate van fuel benefit charge will increase from £610 to £633
- Multiplier for the car fuel benefit charge will increase from £22,600 to £23,400.

Marriage allowance

The marriage allowance allows taxpayers to transfer up to 10% of their unused personal allowance to their partner giving a potential saving of £230 in 2017-18. The allowance was introduced on 6 April 2015. Where one spouse has income less than £11,500, in 2017-18, and the other earns less than £45,000 there may be a claim to be made.

Claims will now be allowed where a partner has died before the claim was made and claims will be able to be backdated by up to 4 years. The change comes into force on 29 November 2017.

IR35: Off payroll for the private sector

The government reformed the off-payroll working rules (known as IR35) for engagements in the public sector in April 2017.

The legislation ensures individuals who effectively work as employees are taxed as employees, even if they choose to structure their work through a personal limited company. A possible next step would be to extend the recent public sector reforms to the private sector.

There was no further news relating to the extension of the IR35 to the private sector. The outcome of an expected consultation process commissioned by the government is expected to be announced in 2018.

The Autumn Budget Report 2017 states that early indications show that the rules have increased compliance. Not unexpectedly, the report states that a possible next step would be to extend the reforms to the private sector, to ensure individuals who effectively work as employees are taxed as employees even if they choose to structure their work through a company.

The government will 'carefully consult on how to tackle non-compliance in the private sector, drawing on the experience of the public sector reforms, including through external research already commissioned by the government and due to be published in 2018'.

Mileage allowance for unincorporated landlords

The use of mileage allowance of 45p and 25p per mile will be made legally available to property rental businesses. Individuals running property business will now be given an option to choose between a mileage allowance or deducting actual running costs and claiming capital allowances. This will be available in respect of existing as well as newly purchased vehicles. This rule was dropped in 2013.

National Living Wage

The National Living Wage, for people aged 25 or over, will increase from £7.50 to £7.83 from April 2018; a £600 per year rise for full-time workers.

Trading an property income allowance

After initially being dropped from the pre-election Finance Act, two separate £1,000 allowances were finally introduced into law retrospectively from 6 April 2017 for trading income and property income.

The first £1,000 of gross trading or property income will be exempt from income tax. If the income exceeds £1,000 the taxpayer will have a choice of:

- deduct the £1,000 'allowance' from their gross income and being taxable on the excess, or
- deduct allowable expenses in the normal way.

National Insurance

National Insurance for the employed

On 6 April 2017, the weekly Lower Earnings Limit (LEL) was increased to £113 pw. This is the income limit where some state benefits start to accrue e.g. a 'qualifying year' towards the flat rate state pension. No National Insurance is actually paid at this limit unless the Secondary Threshold of £157 is exceeded.

The weekly Primary Threshold (PT) and the Secondary Threshold (ST) both increased from 6 April 2017, and will once again both be aligned at a single amount of £157 pw.

Our director clients who pay themselves through their payroll should now be paying themselves in most cases £680 pm from their April 2017 payroll.

The Upper Earnings Limit (UEL) increased £866 pw (£45,000 pa). This is the limit at which 12% NIC stops and the lower rate of NIC of 2% starts to be paid.

The main rates will remain at 12% and 2% (over the UEL) for employees and 13.8% for employer's National Insurance. The Employment Allowance remains at £3,000 for eligible employers.

National Insurance for the self-employed

The Class 4 rates will remain at 9% and 2% (over the UEL) for 2017-18, with increases from 6 April 2017 in the Lower Profits Limit from £8,060 to £8,164 and the Upper Profits Limit increasing from £43,000 to £45,000.

The Class 2 NIC rate was set at £2.85 pw from 6 April 2017 where self-employed profits exceed £6,025 pa.

Class 4 NIC is only payable on self-employed profits over the lower profits limit of £8,164 for 2017/18.

Changes to the NIC system

It was announced earlier in November that the Government has chosen to delay the abolition of Class 2 NIC by a year until 6 April 2019.

For 2018/19 the small profits threshold limit will be £6,205, with contribution rates above this threshold increasing by 10p to £2.95.

The proposed abolition of Class 2 NICs and amendments to Class 4 published in a policy paper of 2016 remain unchanged. The 2016 paper states that legislation will be brought forward to abolish Class 2 NICs and to restructure Class 4 NIC to include the small profits limit. Changes will also be made to the benefit entitlement rules to allow Class 4 NIC to count for state flat rate pension entitlement.

Business tax

People working through limited companies

Changes were introduced from 6 April 2016 to the way people working through limited companies and paying dividends to themselves are be taxed.

Every taxpayer currently receives an annual £5,000 tax-free dividend allowance, with dividends above that level taxed at 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers.

Only two years after this allowance was introduced, from 6 April 2018, the level of dividend income received tax-free will be reduced from £5,000 to £2,000. The tax rates applying outside this band remain unchanged. Dividends above the £2,000 threshold will be taxed at 7.5% for basic-rate taxpayers, 32.5% for higher-rate taxpayers, and 38.1% for additional-rate taxpayers.

The reduction of the tax-free allowance means shareholders will be worse off by £225, £975 or £1,143 a year depending on whether they pay tax at the basic rate, higher rate or additional rate.

Corporation Tax: Rates

The Chancellor announced no changes to the rates of Corporation Tax

The Corporation Tax rate will therefore remain unchanged at the current 19% (from 1 April 2017). It had been 20% for many years before that. The rate will reduce to 17% from 1 April 2019 as previously legislated.

CGT indexation allowance to disappear

This measure means that when a company makes a capital gain on or after 1 January 2018, the indexation allowance that is applied in order to determine the amount of the chargeable gain will be calculated up to December 2017. Indexation allowance increases the original cost of a capital asset. When the capital asset is sold, the gain is determined as the difference between the sale proceeds and the indexed cost. The indexation allowance was introduced to stop businesses being taxed on inflationary gains.

The measure aligns the treatment of capital gains by companies with that for individuals and non-incorporated businesses for whom indexation allowance was abolished in 2008.

Annual investment allowance

The annual investment allowance, to claim 100% first year tax allowances on the initial purchase of plant and equipment, of £200,000 pa remains the same amount and is available for companies and for unincorporated businesses.

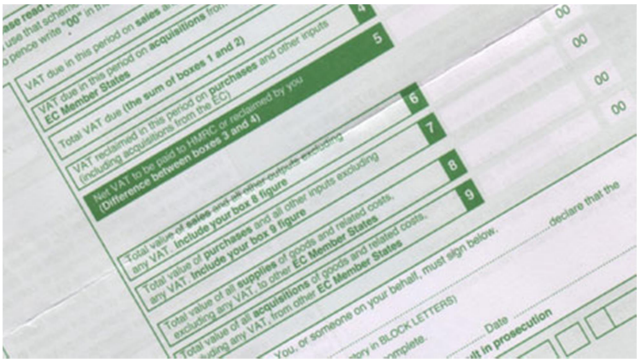
Capital gains tax for individuals

The capital gains tax annual exempt amount will increase from £11,300 in 2016-17 to £11,700 in 2018/19 for individuals. Companies receive no free gains. All gains are taxed at the Corporation Tax rate.

CGT payment window

The Government had intended to introduce a 30-day payment window for gains on residential property disposals from April 2019. This has been pushed back to April 2020.

Value Added Tax



Limits

In response to the announcement of a VAT simplification by the Office of Tax Simplification earlier this month, the Chancellor has decided to freeze the VAT threshold from April 2018 and will maintain its current level of £85,000. However, he has also indicated that these thresholds are far greater than in the rest of the world, so businesses should expect a reduction in the threshold after April 2020.

Stamp duty bonanza for first-time home buyers

From 22 November 2017 first-time buyers paying £300,000 or less for a residential property will pay no stamp duty land tax (SDLT).

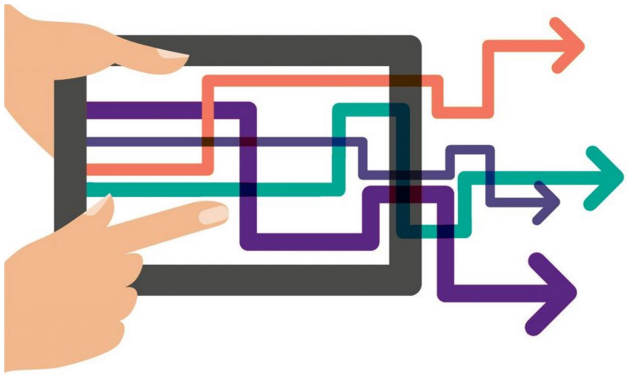
First-time buyers paying between £300,000 and £500,000 will, as before, pay SDLT at 5% on the amount of the purchase price in excess of £300,000.

A first-time buyer is defined as an individual who has never owned an interest in a residential property in the UK or anywhere else in the world and who intends to occupy the property as their main residence.

Finance cost relief for landlords

As previously announced, the Government will now restrict the tax relief on finance costs that individual landlords of residential property currently receive. The restriction will be phased in over 4 years, starting from April 2017. By 2020-21, residential landlords will only save basic rate tax, on the interest element of their expenditure, rather than the full 40% or 45% some landlords receive.

Making Tax Digital



Making Tax Digital another step nearer

The Chancellor has announced the passage of enabling legislation in the Finance (No.2) Act 2017 allowing, subject to secondary legislation, for HMRC to require businesses to keep records digitally.

VAT is the only area that must use Making Tax Digital for business, from April 2019. It applies to businesses with a turnover above the VAT threshold. HMRC is still piloting and testing the new VAT service, and expects it to be available from spring/summer 2018.

The Government has confirmed that:

No business will be mandated to use Making Tax Digital (MTD) until at least April 2019;

Only businesses with a turnover above the VAT threshold (£85,000) will be mandated to use Making Tax Digital for Business (MTDfB) from April 2019, and then only to meet their VAT obligations;

Businesses with a turnover below the VAT threshold will not be required to use MTDfBfrom April 2019 but can choose to do so; and

The scope of MTDfB will not be widened before the system has been shown to work well and not before April 2020 at the earliest.

Investments

Pensions

Despite the usual speculation, and for the first time in many years, the Chancellor announced no significant changes to pension legislation, tax-relief or allowances. The annual allowance therefore remains at £40,000 pa. However, the lifetime allowance for pension savings will increase from the current £1m to £1,030,000 for 2018/2019.

There's no doubt that will come as a relief to those people using pensions to plan for their retirement.

ISA joy confined to the kids

The Individual Savings Account (ISA) annual subscription limit for 2018/19 will remain unchanged at £20,000. The annual subscription limit for Junior ISAs and Child Trust Fund for 2018/19 will be uprated in line with CPI to £4,260 from April 2017. The interest rate for the new NS&I Investment Bond has been confirmed at 2.2%; it will be available for 12 months from April 2017. It is thought that interest will be taxable, but the investor will be able to set their personal savings allowance against it. A basic rate taxpayer can receive £1,000 of bank and similar interest tax free each year. Higher rate taxpayers can receive the first £500 of interest tax free.

No rabbits

In what was a low key Budget, apart from numerous gags, Philip Hammond failed to pull any rabbits from his fiscal hat

The Chancellor's string of gags and much front bench back-slapping, enthusiastic nodding and even the sharing of cough medicine (a joke) may seem a little hollow given the rumoured disagreements but they show the Government's determination to present a united front to fend off another election.

All Paul Limited

About us

All Paul Limited is a modern, independent and proactive firm of Chartered Certified Accountants based in north Leeds.

We provide all the usual essential services that you'd expect e.g. annual accounts, self-assessment tax return preparation, recordkeeping and payroll. In addition, we offer tax planning, business set-up and limited company formation as well as Sage 50 software training and support.

Our objective is simple; to be viewed by our clients as the first point of contact for all their financial, advisory and compliance needs. We achieve this by providing sensible advice and tailored solutions to help clients achieve their commercial and personal goals.

The firm is run by Paul Clifton FCCA who offers a wide range of accounting and tax expertise to local businesses. Paul has worked with smaller owner-managed businesses, through firms of Chartered Accountants, for over three decades.

He works with business owners providing them with practical help and advice on a day-to-day basis.

Our clients are located mainly in north Leeds, but they also come from the surrounding towns and some from overseas. They mainly operate as smaller limited companies and sole traders. Alongside all of the services we offer to the business, we always recognise the importance of the personal circumstances of the business owner.

If you have any questions about the implications of the above, either for you or your business, and would like further advice then please do give us a call. We provide out-of-hours flexible appointments. We are happy to meet you in the evening when you may have more time. So call **All Paul Limited** today on 0113 225 2232 or email us at **info@all-paul.co.uk**. More details about our services can be found by visiting our website at **www.all-paul.co.uk**.

What our clients say about us

"A highly professional service, quick to respond, attention to detail and knowledgeable. I just know I'm in safe hands with All Paul Limited".
Nick S. YorTours, Harrogate

"I was impressed by the breadth of your financial knowledge and have every confidence to recommend you to other people." Karl H. Martin James Property Services, Leeds

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