All Paul Limited

CHARTERED CERTIFIED ACCOUNTANTS

October 2018

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

The Budget 2018

Trick or treat for smaller businesses

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

Introduction

Chancellor Philip Hammond's 2018 Budget speech on 29 October was noted as the 'trick or treat' Budget with its proximity to 31 October. October is a strange month for a Budget. We are so near Bonfire night and Christmas decorations are in the shops.

The Budget speech lasted 73min, his longest Budget speech to date, and had a few bad jokes regarding business rate on public toilets.

The Chancellor said that austerity is 'finally coming to an end' and that wages growth is at its highest in nearly a decade.

Key points

The key announcements for small businesses and their owners were:

- Increase in the basic rate tax band to £50,000, a year earlier than promised.
- Tightening the capital gains tax rules on selling your former home.
- New of 'IR35' style rules for the private sector after last year year's public sector.
- SDLT abolition for first-time buyers on properties worth up to £500,000.
- 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.
- No change in the pension annual allowance of £40,000 or loss of higher tax relief.

Personal tax

Personal allowance increase arrives one year early

The income tax personal allowance will increase from £11,850 to £12,500 and the higher rate limit from £46,350 to £50,000 from April 2019-20. The thresholds will remain at the same level in 2020-21. The £650 increase in the personal allowance will save a basic rate taxpayer £130 in tax.

The £5,000 band of savings subject to the 0% starting rate is unchanged for 2019-20.

Entrepreneurs' Relief

This is a capital gains tax relief. It allows the capital gain on the disposal of shares in an individual's personal company to be taxed at a special rate of 10% rather than the normal capital gains tax rates of 18% or 28%.

The definition of a personal company will be expanded so that a shareholder a 5% interest in the distributable profits and net assets of the company for the relief to be available. This is in addition to the existing requirements that the shareholder must holds at least 5% of the share capital and 5% of the voting rights and that the individual is an employee or office holder of the company.

A second change was that the qualifying conditions must be met for a 2 years period rather than the current rule of a 1-year qualifying period to the point of disposal or the cessation of trade.

For new rules will apply to disposals on or after 6th April 2019.

National Living Wage

The National Living Wage will increase by 4.9%, from £7.83 to £8.21 an hour, from April 2019.

Capital gains tax for individuals

The capital gains tax annual exempt amount will increase from £11,700 in 2017-18 to £12,000 in 2019/20 for individuals. Companies receive no free gains. All gains are taxed at the Corporation Tax rate.

National Insurance

National Insurance for the employed

On 6 April 2019, the weekly Lower Earnings Limit (LEL) will increase from £116 to £118 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 current limit unless the Secondary Threshold of £162 is exceeded.

The weekly Primary Threshold (PT) and the Secondary Threshold (ST) both increase from 6 April 2019, from £162 pw of £166 pw.

This will mean that for most owner managed limited company shareholder-directors, where we typically run their monthly payroll, that their optimum monthly salary will increase from £702 pm to £719 pm from April 2019.

The Upper Earnings Limit (UEL) will increase from £892 (£46.350 pa) to £962 pw (£50,024 pa). This is the limit at which the 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

As was announced last month the planned abolition of Class 2 National Insurance contributions for the self-employed and the associated reforms to Class 4 and related entitlement to state pension, which were due to take effect from 6 April 2019, will not take place.

Class 2 National Insurance, which costs a self-employed trader around £150 per year, gives entitles to a qualifying year towards state pension.

Each qualifying year can be worth around £240 of state retirement pension for every year from retirement age. This can be a very cheap method of accruing a state pension for the overpaid. The self-employed with profits below £6,365, including loss making businesses, will be able to can pay Class 2 voluntarily.

Therefore, Class 2 and Class 4 National Insurance will continue for the self-employed. Changes to the current system of work deemed too complex.

Class 2 contributions increases to £3.00 pw when profits exceed £6,365 pa. Class 4 contribution is paid at 9% on profits between £8,632 for and £50,000 for 2019/20. 2% extra is paid on profits over £50,000.

Business tax

Annual investment allowance

Companies will be able to claim £1m of Annual Investment Allowance for expenditure on plant and machinery between 1 January 2019 and 31 December 2020. The allowance currently stands at £200,000.

The special rate of writing down allowances, on a reducing balance basis, on pool expenditure will reduce from 8% to 6% from 6 April 2019. The main rate of 18% will remain the same. Cars are unaffected.

Digital services tax on the online tech giants

The Chancellor promised a new digital services tax from 2020 that would raise £400m from international companies like Amazon and Google.

The tax will be targeted on UK-generated sales of specific digital platforms businesses, e.g. search engines, social media companies and online marketplaces that generate over £500m a year in global sales. The actually online sales will not be taxed directly on the customer.

Tax on the fake self employed

'IR35' rules for the private sector

The anticipated announcement that the 'IR35 rules' that currently apply for public sector contracts will be brought in line for the private sector. From April 2020, HMRC will finally achieve what it tried to do back in 2000 when IR35 was first introduced.

The responsibility for operating the off-payroll rules will move from the shareholder-director 'employee' to the organisation, agency or other third party engaging the worker.

Some individuals who have historically used personal service companies may now become employees under the changes.

Opinion on whether the public sector off-payroll rules are really working is sharply divided. Some large organisations, like the NHS, have moved most of their self-employed doctors and nurses operating through personal service companies within the new rules. This may not be correct in all cases, but as these organisations have to assess the employment status of each doctor and nurse it is not always practical to do this am therefore large groups of individuals have been automatically enrolled into the new rules.

New off-payroll rules were introduced in April 2017 for some workers in the public sector who traded through their personal service companies including doctors and nurses in the NHS. This made the engaging businesses responsible for assessing an individual's employment status.

The new private sector rules will only apply where the engager is a medium or large business. The term has still to be defined. Small engaging businesses (the employer) will be exempt from the new rules. The EU definition of a medium-sized business has fewer than 250 employees, a turnover not exceeding €50m or Balance Sheet total assets not exceeding €43m. The Companies Act 2006 in the UK has a similar definition but medium sized includes businesses with over 50 employees.

Whilst many people refer to the off-payroll rules, introduced in 2017, as synonymous with IR35 that was introduced in 2000, the rules are not the same.

Under IR35 it is the responsibility of the directors of the customer business to determine if the real relationship between the engager and customer is an employee-employer relationship in spite of the existence of the intermediary limited company. If the rule applies then the directors must include on their own payroll, and subject to PAYE, the deemed salary paid by either engager to the limited company. The employee of the limited company will have a full rights to statutory sick pay, maternity and paternity pay etc. They will also be brought into their auto enrolment workplace pension rules. The limited company can claim a 5% deduction against the gross income for business administration costs. None of these benefits accrue if there off-payroll rules are deemed to apply by the engager. Under the latter rules it is the responsibility of for engager to run a payroll and make the PAYE deductions. Under IR35 it is the responsibility of the limited company to run its own payroll.

The existing IR35 rules for the private sector will still apply for small engages of their contractors.

To determine the status of the worker, HMRC states that it will continue to use the CEST (Check Employment Status for Tax) tool, but that it will be improved and VAT further guidance will be introduced before the changes comes into effect. The main problem with the CEST tool is the lack of information that the person actually inputting facts into that tool knows about the contractor and so can produce an incorrect output of their deemed employment status.

Business tax

Business rates relief for UK's smallest businesses

High Street retailers continued to struggle with the large digital out of town businesses like Amazon.

In a bid to assist the UK's ailing High Street the Business Rates of small retailers, with a rateable value of £51,000 or less, will be cut by a third.

R&D tax credit cap returns from the dead

HMRC claim that they have identified £300m in fraud by artificial corporate structures. As a result, from April 2020 the amount that a loss-making company can claim in R&D tax credits will be capped at three times its total PAYE and National Insurance liability. It was stated that 95% of companies currently claiming the repayment R&D tax credit would not be unaffected.

HMRC and unsecured creditors

From 6 April 2020, HMRC will move its VAT, PAYE, Income Tax, employee National Insurance and Construction Industry deductions to preferential status. These are all taxes collected for or deducted from employees and subcontractors. These taxes are sometimes used to finance a business that is in trouble. Currently, these taxes rank as unsecured creditors in insolvency proceedings meaning that all creditors of the company will rank equally and most probably only receive a small proportion of their outstanding debt.

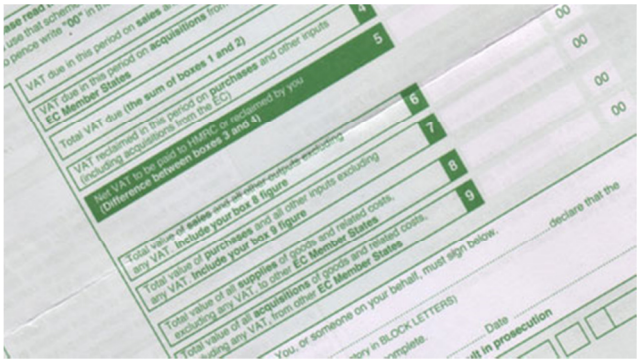
The change will mean that if a company becomes insolvency that more taxes are likely to be paid to HMRC than now. Employer's National Insurance and Corporation Tax will still rank as unsecured claims.

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%. The rate will reduce to 17% from 1 April 2019 as previously legislated.

Value Added Tax



VAT threshold frozen, not lowered

The UK has one of the highest VAT thresholds in the EU. Despite much speculation the UK's VAT threshold of £85,000 may be cut to £50,000 it was frozen for a further two years. Therefore, the VAT registration and deregistration thresholds will not change before at least 31 March 2022.

Whilst the thresholds have not been increased, because of rising inflation and increased sales, more businesses will gradually be forced to register for VAT. It will also give stability to those businesses that may be caught by the VAT Making Tax Digital roles from 1 April 2019.

The VAT Flat Rate Scheme was introduced in 2002 with a £150,000 threshold. This has not changed in the last 16 years. In reality the limit has reduced by 38% because of the effect of inflation.

Stamp duty for first time buyers

The first-time buyers' exemption from stamp duty, which will be backdated to 22 November 2017, will be extended to buyers of the first share in a qualifying shared ownership property with a market value up to £500,000.

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.

Property Tax

CGT blow for homeowners

The tax-free profit that can be made when selling your former home came under fire with two changes to restrict the scope of the capital gains tax relief

Capital gains tax of 18% for basic-rate taxpayers, 28% for higher rate taxpayers, is payable on most gains, including the sale of your main residence relating to any period that it was let and where the owner may not have been in occupation.

CGT - Letting relief

Each property owner can claim a 'lettings relief' to reduce the capital gain. The relief cover gains of up to £40,000. However, it is only available if the property has been the owner's main home a period. The relief does not mean that every property owner that has let out their former home will be able to reduce their capital gain by the maximum £40,000.

The government is proposing to restrict the lettings relief to cover only periods in which the owner of the property is in shared occupancy with the tenant.

For many years home owners that move out and rent their property have sometimes been able to totally avoid capital gains tax on the gain that has arisen on the part of gain arising when the property was let. Homeowners who move and then let out their former home, and do not live in some part of the property in the future, will be hit by this change.

CGT - Last few months

Currently, the capital gains tax main residence relief (PPR) is extended for up to 18 months to cover the last 18 months of ownership where the homeowner moves out of the property before it is sold. This can arise because the property has been let and/or the owner has moved to rented accommodation in a different place of the country to facilitate a job change the before their home is sold. The period was last reduced from 36 months in April 2014.

The government is proposing to cut the PPR exemption for the last period of ownership when the owner is not in occupation to just 9 months.

Changes will come into effect from 6 April 2020 the following consultation.

Pensions and Savings

Pensions

Pension's tax relief was left well alone. It had been strongly suggested that higher rate tax relief on individual pension contributions and the amount that can be paid into money purchase pensions each year, currently £40,000, and which will attract tax relief would be reduced.

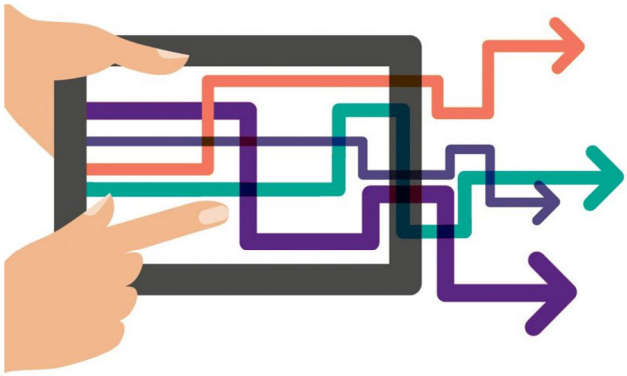
The concept of the Pensions Dashboard is to be resurrected. If implemented, each individual would have a personal Pensions Dashboard. This would consolidate in a single place all of an individual's private and state pension entitlement. With the introduction of auto enrolment and workplace pensions over the last few years, it is quite possible that employees may accumulate lots of small pension pots over their working life if they change employers regular. The Pensions Dashboard would help to bring together all these pensions in one place and help to avoid small pension pots being lost.

The lifetime allowance for pensions will increase from £1.03m in 2018–19 to £1,055,000 in 2019-20.

ISA allowances

The adult ISA annual subscription limit for 2019-20 will remain unchanged at £20,000. The annual subscription limit for Junior ISAs and Child Trust Funds will be increased from £4,260 in 2018-19 to £4,368 in 2018–19.

Making Tax Digital



Making Tax Digital: no changes - full steam ahead

No changes were announced in the Budget regarding any deferral in the implementation of MTD for VAT. Similarly, no announcements were made regarding MTD for sole traders and limited companies regarding extending MTD to income tax and corporation tax at this stage.

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

Businesses must follow the new MTD rules for their first VAT return period that starts on or after 1 April 2019. From this date businesses must keep digital records and submit their VAT returns through software. Software will not be provided free by HMRC. The Government Gateway that around 80% of business currently used to submit their VAT return should not be used after MTD starts. The VAT Government Gateway *may* still be left open and available to businesses though businesses would receive penalties if they continue to use it.

Businesses with a turnover below the VAT threshold will not be required to use MTD, though may join the scheme is they wish. Once a business is within the MTD regime then it must stay within it, unless it deregisters for VAT, even if its turnover falls below the registration threshold.

Other Budget provisions

First year allowance for electric charge points

The current 100% first year capital allowance on electric vehicle charging points was to expire on 31 March 2019. This deadline is to be extended by a further four years to 31 March 2023.

Ban on cold calling in relation to pensions

The consultation outcome on the ban on cold calling in relation to pensions was announced at Budget 2018. It is proposed that regulations will be laid in autumn 2018 to amend the Privacy and Electronic Communications (EC Directive) Regulations 2003 (SI 2003/2426) to ban calls for direct marketing in relation to pension schemes.

This measure is designed to tackle pension scams that often lead to savers losing their entire pension fund. Once the regulations come into force, the government plans to proactively communicate the ban and the Information Commissioner's Office will publish guidance for the pensions industry.

Plastic packaging

The chancellor announced that at this stage the government will not making any regulations or introducing new taxes on plastic packaging. However, if the company's concerned in the production and import of plastic packaging do not take their own actions regarding recycling then the government would re-examine the excessive and environmental harmful effects of plastic packaging.

Similar, at this stage there would be no taxes on plastic cups but again the government would re-examine for position if steps are not taken to limit the environmental impact and poor recycling.

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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