

2017

# SPRING NEWS



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Registered to carry on Audit Work and regulated for a range of investment business activities by the Association of Chartered Certified Accountants

## Current and future choices

Your financial life is not predestined; you have choices to make which will determine how much money you have to spend now, and after you retire. Having a choice makes the decision complex, but we are here to help you assess your financial options, and guide you should the facts change.

The Government is constantly changing the tax rules and regulations. In this newsletter, we have set out the major tax changes which are due to impact individuals and businesses in the next few months.

If you are a UK resident who was born abroad, and are 'non-domiciled' for UK tax purposes, there are particular changes to the tax rules from 6 April 2017 that will affect your tax status in the UK and the taxation of your worldwide wealth. We have not covered those complex issues in this newsletter, but if you are non-domiciled we should talk about your options without delay.

Over the next few years there will be a fundamental shift in the tax system towards online and more frequent communications with HMRC, known as 'making tax digital'. This will require most businesses and landlords to submit accounts data (income and expenses) to HMRC electronically every quarter. Charities and the very smallest businesses will be exempt, but we don't know exactly where that exemption threshold will be set.

It is clear that most unincorporated businesses will have to start sending quarterly accounting reports to HMRC from April 2018. VAT information will have to be submitted from April 2019, and companies will have to submit accounts data quarterly from April 2020. We should discuss how you can prepare your business for this change. •

## Reclaim VAT on purchases

Most business owners apply to be VAT registered sometime after they start trading. They wait until the business is successful enough to make VAT registration worthwhile, or delay registration until their sales reach the compulsory VAT threshold (£83,000).

In either case, the business can reclaim VAT on **goods** purchased in the four years before the date the VAT registration became effective, if the goods are still held on that date. 'Goods' for these purposes includes fixed assets.

VAT on **services** paid for prior to registration can only be reclaimed if the invoice for the services is dated up to six months before the VAT registration date.

If you registered for VAT in the last four years, it is worth checking your old

receipts to see if you can reclaim VAT on earlier purchases.

Over the last five years HMRC has been challenging claims for VAT on pre-registration purchases, particularly for expensive assets such as vans. They said the claim had to be reduced to reflect the wear on the van between the date of purchase and the VAT registration date. This is not what the law says, and HMRC has now admitted that they were wrong.

If you have reclaimed only a proportion of the VAT incurred on the purchase of assets acquired before your business became VAT registered, you can now amend that claim. Where HMRC sent you a demand for VAT overclaimed you can get that VAT back. We can help you with that. •



## VAT flat rate restricted

The VAT flat rate scheme (FRS) allows small businesses to simplify their VAT records and, in many cases, keep a slice of the VAT they collect on behalf of the Government. Unfortunately, there has been abuse of the FRS, so HMRC is changing the rules.

From 1 April 2017, it will be more difficult to make money out of the FRS. A VAT registered business which spends less than 2% of its gross turnover, or less than £1,000 per year on goods, will have to use an FRS percentage of 16.5%. The 'goods' counted for this test don't include food and drink for the employees, motor expenses, or capital items.

The high percentage of 16.5% means the business will have to pay over almost all of the VAT it collects, with no deductions permitted for VAT incurred on purchases. Businesses which operate in the knowledge and service sectors are unlikely to benefit financially from using the FRS after 1 April 2017, although the simplification for VAT records remains.

If your business supplies services (anything from hairdressing to consultancy services) and you use the FRS, we should talk about whether you should remain within the FRS and, in some cases, whether you should even remain VAT-registered. ●

## 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 £1,100, equivalent to a tax reduction of £220, for 2016/17.

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, which is worth up to £835 for 2016/17. ●



## Scottish residents pay more tax

From 6 April 2017 the basic rate (20%) Income Tax band will be smaller for Scottish taxpayers than for taxpayers who live in the rest of the UK. The rates of Income Tax and National Insurance (NIC) are not changing, but there will be differences at the margin between 20% and 40% tax when NI is taken into account – see table.

As the Scottish Parliament has no control over NI the class 1 NIC and class 4 NIC thresholds will be out of line with the 40% Income Tax threshold in Scotland. This means that Scottish taxpayers will pay 52% (40% tax + 12% NIC) on employment income between £43,000 and £45,000.

A Scottish taxpayer is an individual whose main home is in Scotland, but Scottish MPs and SMPs are regarded as Scottish taxpayers, wherever they live. It doesn't matter where the individual's employer is based, or where the taxpayer works. All Scottish taxpayers who are taxed under PAYE should have received a new tax code with an 'S' prefix to allow their employer to deduct the correct tax from their salary or pension.

HMRC have assumed the taxpayer's main home is their correspondence address. If you have a Scottish address, but don't consider that to be your main home, you should update your address details with HMRC without delay. ●

2017/18	Scottish taxpayers	Rest of UK taxpayers
Personal allowance	£11,500	£11,500
20% tax band	31,500	33,500
40% tax applies above:	43,000	45,000
12% Class 1 NIC applies to:	45,000	45,000

## New levies and charges

Two new levies on employers come into effect in April 2017.

The Apprenticeship Levy is a charge set at 0.5% of your total payroll costs. It will be payable alongside PAYE and reported to HMRC on your monthly RTI returns. Employers will get an annual allowance of £15,000 to set against the Apprenticeship Levy. This means you will only have to pay the levy to the extent that your payroll costs exceed £3 million per year.

The immigration skills charge is an annual charge of £1,000 (£364 for smaller businesses) for each skilled worker you sponsor to come to the UK from a country outside the European Economic Area. This charge will only apply to permanent workers on a Tier 2 visa and there are exemptions for graduate trainees. If you employ such workers, you will have to pay this charge alongside other visa charges to the Home Office, not to HMRC. ●

## Jointly held let property

From 6 April 2017, if you let residential property as an individual, you won't be able to deduct all of the finance costs from your rental income. This blocking of deductions for loan interest and other finance charges is to be phased in over four years.

Where your let property is mortgaged, you will be taxed on the rental income before deduction of interest charges. Your marginal tax rate may increase to 40% or 45%, and you could make a real loss after paying tax. Where your family receives child benefit, that could be clawed back in full as a result of your higher taxable income.

A partial solution to this problem is to give a share in the let property to your spouse or civil partner. Such a gift won't attract Capital Gains Tax if you and your spouse are living together during the year of the gift. The aim is to spread the income from the let property over two basic rate tax bands, and two personal allowances, to reduce the total tax payable.

For maximum flexibility, the property should be held as 'tenants in common', so you can determine the exact share in the property that you each own; say, 10% and 90%. Your solicitor should draw up a trust deed which states who holds which share (or 'beneficial interest') in the property.

If you want to be taxed on the property income in line with your beneficial interest, you and your spouse need to submit an election on Form 17 to HMRC, and include a copy of the trust deed. Without the Form 17 election you will both be taxed on 50% of the income from your jointly held property, whatever your underlying beneficial interest.

You can't submit a Form 17 election if the property is held as 'joint tenants' rather than as 'tenants in common'.

Legal advice should always be taken when changing the ownership of a property and, where the property is mortgaged, the permission of the lender will be required. ●

# Long-term effects of child benefit

When your child is born, you or your partner may claim child benefit, or perhaps you won't bother. If either of you has annual income of £60,000 or more, all of the child benefit your family receives will be clawed back as a High Income Child Benefit Charge (HICBC). But not claiming child benefit can disadvantage both the parent and the child.

Where a non-working parent (usually the mother) doesn't claim child benefit, she won't receive National Insurance (NI) credits while the child is aged under 12 years. This will leave a gap in her NI record, and on reaching state retirement age she may receive a smaller state pension.

The new flat rate state pension, paid to people who retire on or after

6 April 2016, doesn't allow an individual to receive a pension based on their spouse's NI contributions.

If child benefit is never claimed in respect of the child, on reaching 15 years and 9 months, the young person won't be issued with a UK NI number. The individual will have to apply for an NI number in order to work, open an ISA account, or receive a student loan.

To avoid these difficulties, you should apply for child benefit on the birth

of your child. You can opt out of receiving payment of the benefit by ticking a box on the application form, but this won't affect your NI credits. If your income falls below £60,000 so the HICBC doesn't claw back all of the benefit, you can reverse the opt-out and start to receive payments. ●



## When a house is not a home

When you sell a residential property which is not your main home, you will pay Capital Gains Tax (CGT) on any profit at 28%, or at 18% where the gain falls within your basic rate band.

These tax rates also apply to properties which have been let as furnished holiday accommodation. However, where certain other conditions are met, gains made from disposing of a holiday lettings business can qualify for entrepreneurs' relief, in which case CGT will be charged at 10%.

Where the nature of the property has changed over time, say, from a green field

to a house, the rate of CGT may be lower on the part of the gain that relates to the time the property was just bare land.

A property may consist of a home, with non-residential buildings or areas (e.g., a paddock). In this case the gain on sale must be apportioned between residential and non-residential parts. You should keep records of the use of any significant land attached to your home, to demonstrate whether it was used as part of the residence or not.

Please talk to us before agreeing to sell a valuable property, as the tax calculations can be very complex. ●

## NMW traps

The national minimum wage (NMW) is increasing again, but this time the new rates take effect from 1 April 2017 instead of in October. This will be the second compulsory pay rise in just over six months for some of your younger employees.

The good news is that in future all increases in the NMW and living wage will take effect from 1 April each year.

It is important to identify which workers should receive which level of NMW, and how the amount per hour should be calculated. Certain high-profile employers have fallen foul of the rules

when their staff worked unpaid overtime. Every worked hour must be counted for the NMW calculations.

Any underpayment of NMW could land you with a penalty of up to 200% of the underpaid amount, up to £20,000 per worker, with a minimum penalty of £100 per worker.

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 was due to an innocent mistake in the calculations – even if it was. ●

## 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-national-insurance-record](http://www.gov.uk/check-national-insurance-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. ●

## ATED hassle

The Annual Tax on Enveloped Dwellings (ATED) must be paid by corporate owners of UK residential properties worth over £500,000, if an exemption or relief from ATED has not been claimed for the property. The amount due per property varies from £3,500 to £220,350 per year (2017/18 rates).

Where an ATED payment is due, an ATED return for the property must be submitted to HMRC by 30 April within the chargeable year; by 30 April 2017 for 2017/18. The ATED return can be filed online or on paper, but the online return for 2017/18 can't be submitted before 1 April 2017.

When the property is acquired during the year, the ATED must be paid within 30 days of the acquisition date. Where the property is a new build, the ATED must be paid within 90 days of the date the local council issues a completion notice. If the property is occupied as a residence before that date, the ATED return is due 90 days after the occupation date. Council tax is due in addition to the ATED.

If the property qualifies for relief or exemption from ATED, that relief must be claimed on an ATED relief declaration form. There is a separate ATED declaration relief form for each type of relief, such as property trading, development or letting. The ATED relief declaration form must also be submitted by 30 April each year.

If your company owns residential property, you need to be aware of your ATED obligations. Failure to submit an ATED form, or ATED relief declaration on time, will trigger significant penalties. HMRC can easily check which companies own residential properties by searching the Land Registry. ●

### The new hourly rates are:

For pay periods starting after	25 & over (living wage)	21 to 24	18 to 20	Under 18	Apprentice
1 April 2017	£7.50	£7.05	£5.60	£4.05	£3.50
1 October 2016	7.20	6.95	5.55	4.00	3.40



## 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.

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. ●

## 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. ●

## Block on pensions recycling

Since 6 April 2015, there are few restrictions for those aged 55 and over who wish to access their savings in money purchase pension schemes. You may have taken advantage of this 'pension freedom' as it is called.

However, if you have drawn more than the tax-free lump sum from your pension fund, you need to think carefully about making further pension contributions.

The total amount you and your employer can contribute each year to a pension fund in your name is limited by your Annual Allowance (AA). This is set at £40,000 per year, plus any unused AA brought forward from the three previous years.

Once you have taken taxable income from your pension fund, your AA is replaced by a Money Purchase Annual Allowance (MPAA) for that tax

year and all subsequent tax years. The MPAA is currently set at £10,000, but it will reduce to £4,000 on 6 April 2017. It can't be boosted by unused allowance or carried forward to later tax years.

If your pension contributions exceed your AA or MPAA (where that applies), you must pay tax on those excess contributions at your highest tax rate.

The purpose of the MPAA is to discourage people from drawing funds from one pension scheme, then replacing that money in another pension scheme, attracting additional tax relief. This is called 'pensions recycling'.

The low level of the MPAA may catch you out if you are still employed and contributing to an occupational pension scheme under auto-enrolment. Take professional advice before accessing any of your pension savings. ●

## Salary sacrifice

Some employers offer their employees a choice about elements of their remuneration package, such as taking a company car or a car allowance. When cash earnings are swapped for a benefit in kind, both the employer and the employee may be better off, if the benefit attracts lower National Insurance Contributions (NIC) than a cash payment.

The Government believes it is missing out with these salary sacrifice arrangements, so the law is to be changed such that NIC will be charged at the higher of the value of the cash foregone and the value of the benefit received. Where the employee is not given a choice of salary or a benefit, they won't be affected.



The new rules will have to be applied to salary sacrifice arrangements which are renewed or modified after 5 April 2017. Where the benefit received is

a car, school fees or accommodation, the new NIC rules must take effect from 6 April 2021, but for other benefits the new NIC rules must apply no later than 6 April 2018.

The following benefits are excluded from these new NIC

rules; pension contributions, pensions advice, childcare, cycle-to-work schemes and ultra-low emissions cars.

If your employees enjoy a choice of salary or benefits, we should talk about how this change in the law can be implemented by your business. ●

## How to cancel a VAT registration

In the UK, a business can opt out of a VAT registration if its annual turnover is less than £81,000, but it must register for VAT if its turnover exceeds £83,000. The difference between those figures is there to prevent businesses from falling in and out of the compulsory VAT zone over a few pounds.

If your business is VAT registered, but your turnover (excluding VAT) is now below £81,000, you can cancel your VAT registration. You may pick the date from which the deregistration takes effect, such as the last day of the month or quarter. But this date can't be any earlier than the day on which you apply to HMRC to deregister.

When your business ceases to trade, you can cancel your VAT

registration from the day you stop trading, but that is the only occasion on which the VAT registration can be cancelled with retrospective effect.

You can cancel your VAT registration online, or by completing a form VAT7 to sign and send to HMRC. We can help you with this.

But before you make the final decision to deregister from VAT, we should discuss your future plans. If you expect your sales to increase in the medium term, you may have to register for VAT again, so cancelling your current VAT registration may not be worthwhile.

After your VAT registration has been cancelled you won't be able to recover VAT suffered on your business purchases. ●