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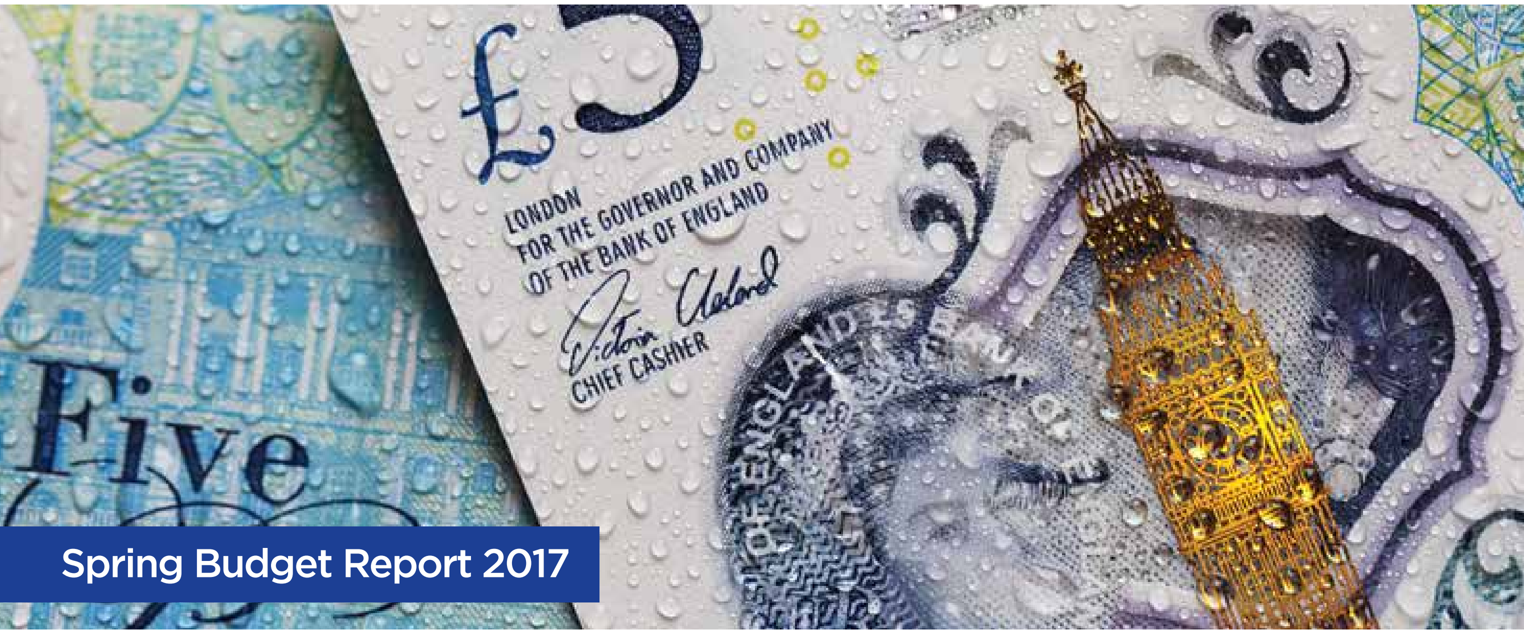

Spring Budget Report 2017

There was great emphasis on "laying the foundations of a stronger, fairer, better Britain" whilst ensuring "the UK lives within its means".

A key focus of the budget speech therefore was "a fair and sustainable tax system" and this has driven key changes to the way in which individuals are taxed on their different sources of income.

Philip Hammond stated "I will always encourage and support the entrepreneurs and the innovators" and "people should have choices about how they work" but what the government are not so keen on is the way in which tax efficiency, when choosing a vehicle through which to trade, is a key consideration.

Whether you choose to trade as a sole trader, partnership or through a Limited Company or Limited Liability Partnership plays a key role in determining how profits and shareholder drawings are taxed and can therefore have a significant impact on the choices made.

The government are seeking to close this differential by bringing the tax regimes more in line with each other. Their argument for doing so surrounds the legislation regarding the new state pension, whereby from 2016 both an employee and a self employed person would accrue the same level of state pension whilst contributing different levels of National Insurance.

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

However in a move to reduce the tax differential between the self employed and employees it was announced that Class 4 NICs would rise from 9% to 10% in April 2018 and to 11% in April 2019.

The raise in National Insurance has been a controversial one and whilst initially the government were steadfast on their proposed changes it was later announced in a letter from the Chancellor to MPs that these increases would not go ahead "in this parliament".

There will however be continued review into the tax treatment between self employed and employed on the back of a forthcoming report into "modern working practices" which is currently underway. The impact of which will be presented in the Autumn Budget.

The Chancellor then turned his attention to those receiving dividends as remuneration via a limited company. Dramatic changes were introduced last year with a new tax on dividends subject to a tax free dividend allowance of £5,000. It was announced that this allowance will be reduced to £2,000 from April 2018. The cut will mean that a higher rate taxpayer receiving £5,000 of dividend income will now face almost £1,000 in extra tax. Whilst the emphasis was on smaller businesses this change will also impact on those relying on investments to fund their retirement.

Another hot topic of conversation amongst small businesses and advisors alike recently has been the consultations surrounding the Making Tax Digital (MTD). Published guidance in January 2017 had set the start date of April 2018 for many, however in a slight U-turn unincorporated businesses that have an annual turnover below the VAT registration threshold will now have an additional year until April 2019 to prepare before MTD becomes mandatory.

Finally for businesses subjected to the increase in business rates from April 2017 there is also some relief in the form of £435 million to support businesses affected by the business rates relief revaluation. This means no small business that is coming out of small business rates relief will pay in excess of £600 more in business rates this year than they did in 2016-17.

For further details please visit http://www.sheen-stickland.co.uk/spring-budget-2017

by Paula Joyce, Tax Client Manager

Spotlight on corporation tax

In the Autumn Statement, the Chancellor confirmed a series of forthcoming changes to corporation tax. Here we consider the changes, together with some useful tax-saving tips and strategies to help minimise the corporation tax bill.

Future changes

In the 2016 Autumn Statement, Chancellor Philip Hammond reconfirmed that the corporation tax rate will fall from 20% to 19% for the Financial Year beginning 1 April 2017, and will reduce again to 17% for the Financial Year beginning 1 April 2020.

The government is also reforming the rules governing corporate losses carried forward from earlier periods. The reform will offer more flexibility over the use of losses which arise on or after 1 April and which are carried forward, by allowing them to be useable against profits from different types of income and other group companies.

The reform will also restrict companies' use of losses carried forward so that they cannot reduce their profits arising on or after 1 April 2017 by more than 50%. This restriction will apply to a company or group's profits above £5 million. It should be noted that this restriction applies to losses carried forward arising at any time.

Tax-saving strategies

Careful planning can help to minimise the corporation tax bill. Consider the following strategies:

Capital allowances

The Annual Investment Allowance (AIA) provides 100% relief up to the value of £200,000. This is available for the purchase of most plant and machinery (excluding cars). Any annual expenditure over the maximum amount enters either the main rate pool or the special rate pool, attracting a writing down allowance (WDA) at the rate of either 18% or 8% respectively.

Businesses that invest in energy-saving or environmentally friendly equipment can also claim a 100% first year allowance. New cars with low CO_2 emissions (up to 75 g/km, reducing to 50 g/km from April 2018) also qualify for a 100% first year allowance.

Deductible expenses

Expenditure incurred before the company's year end may reduce the current year's tax liability. Bringing forward expenditure by even a few weeks on items that are deductible from profits could accelerate tax relief by 12 months.

Hire purchase and lease purchase

This can offer a useful vehicle for financing the purchase of an asset. Plant and machinery acquired on hire purchase should qualify for capital allowances on the full purchase price, regardless of whether the business has paid only the deposit.

Pension contributions

Contributions made to registered pension schemes are generally allowable for tax in the year of payment. Tax relief may need to be spread where contributions for the current period exceed contributions made during the previous period by a set amount.

Bonuses

It is possible to make provision in the annual accounts for bonuses which are paid to directors and staff up to nine months after the year end. These must be charged to PAYE and national insurance as appropriate.

Capital gains

Capital gains are taxed at the rate of corporation tax, after deducting from the sale proceeds the market value at March 1982, or cost of acquisition if later, as well as costs incurred in improving the asset, an indexation allowance (to account for inflation), and certain disposal costs.

We can advise on all aspects of corporation tax, from dealing with compliance to timing your capital expenditure.

VAT flat rate scheme changes ahead

April 2017 sees changes to the VAT flat rate scheme, which may have a detrimental impact on certain small businesses. Here we explore the new rules.

What is the flat rate scheme?

The VAT flat rate scheme is designed to reduce the administrative burden for small businesses by simplifying the way in which they calculate their VAT liability. It is available to VAT-registered businesses which expect their VAT taxable turnover in the next 12 months to be £150,000 (excluding VAT) or less.

The scheme saves time by removing the need to calculate and record output tax and input tax when calculating the net VAT due to HMRC. Instead, a flat rate percentage is applied to the turnover of the business as a one-off calculation. The set percentage used depends on which sector the business operates in.

A business must leave the scheme if its turnover for the previous 12 months was more than £230,000 (including VAT), or the business expects turnover to exceed this limit in the next 12 months. A business must also leave the scheme if there are reasonable grounds to believe that total income is likely to exceed £230,000 in the next 30 days.

Forthcoming changes

In the 2016 Autumn Statement, the Chancellor announced that a new 16.5% rate will be introduced for businesses with limited costs, such as many labour-only businesses. The new rate comes into effect from 1 April 2017, although anti-forestalling provisions are already in force (see later).

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 firm will also be 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. In practice, this might apply to labour-intensive businesses such as hairdressers, IT contractors and consultants.

The rules state that goods must be used exclusively for the purpose of the business. When calculating goods expenditure, purchases on the following are excluded: capital expenditure; food or drink for consumption by the flat rate business or its employees; and vehicles, vehicle parts and fuel (except where the business carries out transport services and uses its own or a leased vehicle).

Anti-forestalling provisions

The government has issued anti-forestalling provisions which are designed to prevent any business defined as a limited cost trader from continuing to use a lower flat rate beyond 1 April 2017. These provisions will affect a business that supplies a service on or after 1 April 2017 but either issues an invoice or receives a payment for that supply before 1 April 2017.

We can help you to decide whether the flat rate scheme is right for your business. To find out more visit www.sheen-stickland.co.uk or email enquiries@sheen-stickland.co.uk

Introducing the new Lifetime ISA

Under 40? If so, then you may be able to apply for the new Lifetime ISA, which is being launched from April.

What is it?

From April 2017, any adult under the age of 40 will be able to open a new Lifetime ISA account, into which they can deposit up to £4,000 each tax year. They will then receive a 25% bonus from the government on any savings put into the account before their 50th birthday.

Both the tax-free savings and the government bonus can be used for a deposit for a first home in the UK worth up to £450,000 at any time from 12 months after first saving into the account. Alternatively the funds, including the bonus, may be withdrawn from the Lifetime ISA from age 60 tax-free, for any purpose. Lifetime ISA holders can access their savings if they become terminally ill.

Savers can also withdraw money before their 60th birthday for other purposes, but a 25% government charge will be applied to the amount of the withdrawal, together with a 'small additional charge'.

New amounts contributed to a Lifetime ISA will count against an individual's overall ISA limit for the year (£20,000 from April 2017), as well as the Lifetime ISA limit. An individual will only be able to pay into one Lifetime ISA each tax year, as well as a Cash ISA, a Stocks and Shares ISA and an Innovative Finance ISA.

Lifetime ISA versus Help to Buy ISA

Individuals intending to use the savings to purchase a first home may want to consider whether it is more beneficial to invest in a Lifetime ISA or a Help to Buy ISA, and the decision will depend on their individual circumstances.

As a general point, the Lifetime ISA is intended as a long-term savings product, whereas the Help to Buy ISA is designed to be a short-term savings product and is only open to new savers until 30 November 2019.

During the 2017/18 tax year only, savers who already have a Help to Buy ISA will be able to transfer any funds built up before 6 April 2017 into a Lifetime ISA without these counting towards the Lifetime ISA contribution limit.

To find out more visit www.sheen-stickland.co.uk or email enquiries@sheen-stickland.co.uk

Tax Tip

Minimising the capital gains tax bill

There are many ways in which your liability to capital gains tax (CGT) can be minimised. These may include:

- Making use of the CGT annual exemption
- Increasing pension contributions
- Transferring assets or holding them in joint names
- Selling gradually, particularly when realising large gains
- Making full use of reliefs.

We can help with all your CGT planning needs. Please contact us for more information.

Reminders for your Spring Diary

March 2017	
31	End of corporation tax financial year.
	End of CT61 quarterly period.
	Filing date for Company Tax Return Form CT600 for period ended 31 March 2016.
April 2017	
5	Last day of 2016/17 tax year.
	Deadline for 2016/17 ISA investments.
	Last day to make disposals using the 2016/17 CGT exemption.
14	Due date for income tax for the CT61 period to 31 March 2017.
19/21	Quarter 4 2016/17 PAYE/Class 1 NICs remittance due.
May 2017	
1	Start of daily penalties for 2015/16 online Self Assessment Tax Return not yet filed. Additional penalties may apply for further delay.
3	Submission date of P46 (Car) for quarter to 5 April.
31	Last day to issue 2016/17 P60s to employees.

Web Watch

Essential sites for business owners

www.exportingisgreat.gov.uk

Information and advice for businesses seeking to export.

www.cityam.com

Up-to-date information on all the latest tax, financial and business news.

www.tax-news.com

The latest tax news from around the world.

visual.ons.gov.uk/find-out-the-gender-pay-gap-for-your-job

New tool to allow individuals to calculate the gender pay gap for their profession.

Please visit our website to find more articles from our quarterly review or sign up to our e-newsletter for the full digital version of OnAccount.

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