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Welcome...

To January's Tax Tips & News, our newsletter designed to bring you tax tips and news to keep you one step ahead of the taxman.

If you need further assistance just let us know or you can send us a question for our Question and Answer Section.

We are committed to ensuring none of our clients pay a penny more in tax than is necessary and they receive useful tax and business advice and support throughout the year.

Please contact us for advice on your own specific circumstances. **We're here to help!**

January 2017

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Changes to the VAT flat rate scheme

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In a surprise announcement in the 2016 Autumn Statement, the Chancellor announced **that changes are to be made to the existing flat rate scheme for VAT (FRS) in order to tackle perceived 'aggressive abuse'**. The changes, which will take effect from 1 April 2017, are designed to 'reduce the incentive for firms and agencies to move employees to self-employment to exploit VAT simplification aimed at small businesses'. The subsequent HMRC policy paper published on 5 December sets out the details of the changes, which will affect any users, or prospective users, of the FRS.

The FRS is a simplified VAT accounting scheme for small businesses, which currently allows users to calculate VAT using a flat rate percentage by reference to their particular trade sector. From 1 April 2017 a new 16.5% FRS rate will be introduced for businesses with limited costs. Interestingly, HMRC's policy paper on this change comments that 'many labour only businesses' may be affected. Although not yet clarified, this may mean the adjustments will not apply to service-related businesses such as journalists, architects or engineers.

Between now and 1 April 2017, anyone currently using the FRS for VAT, or thinking of joining the scheme, will need to decide whether they are a 'limited cost' business. For some businesses - for example, those who purchase no goods, or who make significant purchases of goods - this will be obvious. Other businesses will need to complete a simple test, using information they already hold, to work out whether they should use the new 16.5% rate.

A 'limited cost' business is defined in the draft legislation as one whose VAT inclusive expenditure on goods is either:

- less than 2% of their VAT inclusive turnover in a prescribed accounting period;
- greater than 2% of their VAT inclusive turnover but less than £1,000 per annum if the prescribed accounting period is one year (if it is not one year, the figure is the relevant proportion of £1,000).

Goods, for the purposes of this measure, must be used exclusively for the purpose of the business but exclude the following items:

- capital expenditure goods;
- food or drink for consumption by the flat rate business or its employees;
- vehicles, vehicle parts and fuel (except where the business is one that carries out transport services - for example a taxi business - and uses its own or a leased vehicle to carry out those services).

These exclusions are part of the test to prevent traders buying either low value everyday items or one off purchases in order to inflate their costs beyond 2%.

To support businesses implement this change, HMRC have said that they will be launching an online tool that will enable both current and prospective users of the FRS to determine whether they must use the new rate.

Abolition of Class 2 NICs

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Originally announced at Budget 2016, the 2016 Autumn Statement confirmed that Class 2 National Insurance Contributions (NICs) will be abolished from April 2018, hopefully achieving the desired effect of simplifying National Insurance for the self-employed and making the system fairer for employed and self-employed individuals.

At the same time as the abolition of Class 2 NICs, the system for Class 4 NICs will also be reformed to include a new threshold - to be called the 'small profits limit' (SPL). The amount of the SPL for 2018/19 is yet to be confirmed but is likely to be around £6,025.

Payment of Class 2 NICs by the self-employed - a standard weekly contribution of £2.80 per week in 2016/17, rising to £2.85 per week from April 2017 - gives eligible individuals access to certain contributory benefits such as contribution-based employment and support allowance, basic state pension and bereavement benefits.

Class 4 NICs are paid by the self-employed on profits above the annual 'lower profits limit' (LPL). For 2016/17 contributions are payable at the rate of 9% on profits between £8,060 (the LPL) and £43,000 (the 'upper profits limit (UPL)). Contributions are then paid at the rate of 2% on profits above the UPL. For 2017/18 the LPL will be £8,164 and the UPL will be £45,000.

After abolition of Class 2 NICs from April 2018, those with profits between the SPL and the LPL will not be liable to pay Class 4 contributions but will be treated as if they have paid Class 4 contributions for the purposes of gaining access to certain contributory benefits. **Those with profits at or above the Class 4 LPL will gain access to the new state pension**, contributory employment and support allowance (ESA) and bereavement benefit. Those with profits above the LPL will continue to pay Class 4 contributions.

The special arrangements that currently apply to share fishermen and volunteer development workers that allow them to pay special rates of Class 2 NICs to gain access to a wider range of benefits than currently available through Class 2 will also be abolished from April 2018. Transitional provisions will apply.

Class 3 contributions, which can be paid voluntarily to protect entitlement to the state pension and bereavement benefit, will be expanded from April 2018, to give access to the standard rate of Maternity Allowance (MA) and contributory ESA for the self-employed. Rates of Class 3 NICs are £14.10 per week for 2016/17 rising to £14.25 in 2017/18.

Concerns over these changes have been expressed within the tax profession. Anthony Thomas, Chairman of the Low Incomes Tax Reform Group (LITRG) said that some parts of these proposals are good news for self-employed workers on low earnings, but by no means all. Those with profits between the Class 2 exemption limit (currently £5,965) and the Class 4 LPL (currently £8,060) will be better off because they will pay no NI but be credited with contributions. The Group's concern is for those with lower earnings than £5,965 who would have to pay voluntary Class 3 contributions in the future to protect their benefits entitlement if they did not obtain NI credits through receipt of other benefits, for example tax credits, child benefit or Universal Credit. Class 3 contributions will cost almost five times the amount they are paying now (£14.10 per week compared to £2.85 per week) and may mean the cost is unaffordable, leading them to rely more on means-tested benefits in the future.

Company cars: ultra-low emissions vehicles

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At Budget 2016, the government said it would consult over the summer on changes to the ultra-low emission vehicles (ULEV) bands for taxing company cars to **'focus incentives on the very cleanest cars'**. As a result of the consultation, HMRC have now published details of eleven new bands, which will be introduced for ULEVs with emissions below 75gCO2/km from 2020/21, including a separate zero emission band.

Some of the lowest CO2 bands are based on the 'electric range' of the vehicle, as well as the CO2 emissions. This is the maximum distance the vehicles can travel in pure electric mode without recharging the battery or using the combustion engine of the plug-in vehicle. The aim is to distinguish between ULEV's with different plug-in hybrid technologies and improved battery range, which will focus incentives on the very cleanest cars that allow most journeys to be zero emissions.

The seemingly complex provisions are included in Finance Bill 2016 and provide that, from 6 April 2020, the graduated table of company car tax bands will include a differential for cars with emissions of 1 to 50 gCO2 per km based on the electric range of the car.

For cars with an electric range of 130 miles or more, the appropriate percentage will be 2%; for cars with an electric range of between 70 to 129 miles, the appropriate percentage will be 5%; for 40 to 69 miles, the appropriate percentage will be 8%; for 30 to 39 miles, the appropriate percentage will be 12%; and for less than 30 miles, the appropriate percentage will be 14%.

For cars that can only be driven in zero-emission mode, the appropriate percentage will be 2%.

For all other bands with CO2 emissions of 51 gCO2 per km and above, the appropriate percentage will be based on the CO2 emissions only. For cars with emissions of 51 to 54 gCO2 per km the appropriate percentage is 15%. For cars with emissions above 54 gCO2 per km, the bands are graduated by 5g CO2 per km and the appropriate percentage increases by 1% for each 5 gCO2 per km band. For example, 16% for 55 to 59, 17% for 60 to 64, up to a maximum of 37%. For cars with emissions above 90 gCO2/km, the appropriate percentage will increase by 1% in comparison to 2019/20 levels.

Disguised remuneration and the self-employed

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Following the announcement in the Autumn Statement, HMRC have published the details of a measure designed to tackle the future use of avoidance schemes currently being used by some self-employed people to avoid paying income tax and NICs on their income.

The measure will also tackle the existing use of schemes involving loans with a new charge (a 'loan charge') on outstanding loans taken out as part of avoidance arrangements. This charge will apply if tax is not paid on the loan and the loan is not repaid by 5 April 2019.

Various 'disguised remuneration' avoidance schemes currently exist, but they commonly result in a loan from a third party that is on such terms that mean it is unlikely to ever be repaid. At Budget 2016 the government announced that legislation would be introduced in Finance Bill 2017 to tackle this

perceived tax avoidance by the self-employed. This announcement goes alongside a similar package of measures to curtail current and future use of disguised remuneration avoidance schemes by employees.

Broadly, Finance Bill 2017 will include provisions designed to counter arrangements that are intended to secure a deduction from income, where such a deduction ultimately is used to provide a loan or other benefit to the individual or anyone connected to them. The legislation will also counter arrangements involving the self-employed that seek to exclude an element of the taxable earnings of the self-employed individual whilst at the same time using that element to provide a loan or other benefit, either to themselves or persons connected with them. These changes, in enacted will have effect from 6 April 2017.

Legislation in Finance Bill 2017 will also introduce a charge to apply to any balance of disguised remuneration loans made after 5 April 1999, as used by the self-employed as part of the avoidance arrangements. The charge will apply on 5 April 2019 to any such loans still outstanding on that date. The amount of the loan outstanding is, broadly, the principal of the loan less any repayments. Generally, only money payments will be recognised as repaying the loan. Any money payment connected with a tax avoidance arrangement, excluding the arrangement under which the loan was made, will be disregarded. The loan charge will also apply to situations where one loan is replaced by another loan, some other form of credit or a payment purporting to be a loan, referred to as quasi-loans in the legislation.

January questions and answers

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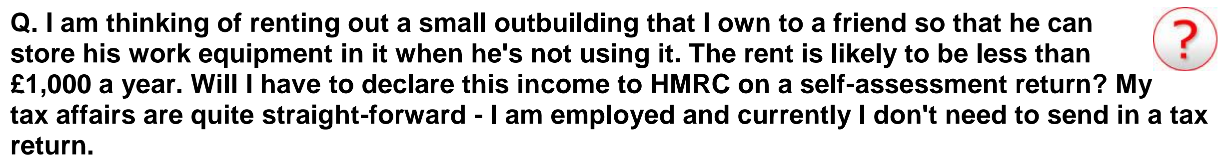

Q. I am thinking of renting out a small outbuilding that I own to a friend so that he can store his work equipment in it when he's not using it. The rent is likely to be less than £1,000 a year. Will I have to declare this income to HMRC on a self-assessment return? My tax affairs are quite straight-forward - I am employed and currently I don't need to send in a tax return.

A. Two new annual tax allowances of £1,000 each are being introduced from April 2017. One allowance is for trading income and the other is for property income. If your income from property is less than the annual limit, you will not have to declare it to HMRC or pay tax on it.

The new allowances will apply to all types of property and trading income of an individual but not to partnership income from carrying on a trade, profession or property business in partnership where special rules apply.

It is also worth noting that the allowance will not apply in addition to relief given under the rent-a-room rules (currently £7,500 per annum).

Q. Several of my employees have expressed an interest in purchasing electric cars but have pointed out that as our office is situated in a remote location they will be unable to make their whole commute without charging. If the business pays for an electric charging point to be installed at the business premises, would capital allowances be available for the expenditure incurred?

A. As luck would have it, the Autumn Statement announced that from 23 November 2016, businesses (large and small) can claim a 100% first-year allowance (FYA) for qualifying expenditure incurred on the acquisition of new and unused electric charge-points. Initially the allowance will be available until 31 March 2019 for corporation tax purposes and 5 April 2019 for income tax purposes.

Whilst this measure sounds like a big 'giveaway' from the government, prior to the change, the expenditure could have been covered by the capital allowances annual investment allowance (AIA), which means that, in practice, it impacts only on those businesses with qualifying plant and machinery expenditure above the level of the AIA (currently £200,000).

Do note however that there are separate workplace grants available for businesses who install electric

charge points for use by their employees. It may be worth investigating this further.

Q.Ten years ago my husband inherited a share of his father's property when he died as a joint owner with his partner. My father-in-law's will specified that his surviving partner could continue living in the property for as long as she wanted. Both my husband and my deceased father-in-law's partner are on the deeds for the property. The partner has recently died and the property is empty. Will my husband have to pay capital gains tax on his share when it is sold, even though he could not live there because the partner was in residence?

A. I am assuming that your husband is now in possession of the whole property, even though originally the partner owned half of it. If so, she must have transferred her half to him. When your husband sells the property, for capital gains tax purposes he will effectively be making two sales, namely the half which he inherited on his father's death and the half he has recently acquired from the deceased partner. I'm afraid he will be liable to capital gains tax on the half he has owned for the last ten years, even though the partner was still living there. He will also be liable to capital gains tax on the recently acquired half. However, the base cost for the second half will be the market value of that half at the date the partner transferred it to him. The higher base cost should help is should help reduce the chargeable gain on that part.

January key tax dates

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1 - Due date for payment of Corporation Tax for the year ended 31 March 2016

14 - Return and payment of CT61 tax due for quarter to 31 December 2016

19/22 - PAYE/NIC, student loan and CIS deductions due for month to 5/1/2017 or quarter 3 of 2016/17 for small employers

31 - Deadline for filing 2016 Self Assessment personal, partnership and trust Tax Returns - £100 first penalty for late filing even if no tax is due or tax due is paid on time

- Balancing self assessment payment due for 2015/16
- Capital gains tax payment due for 2015/16
- First self assessment payment on account due for 2016/17
- Interest accrues on all late payments
- Half yearly Class 2 NIC payment due
- Further penalty of 5% of tax due or £300, whichever is greater for personal tax returns still not filed for 2014/15
- 5% penalty for late payment of tax unpaid for 2014/15 self assessment

Need Help?

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Please contact us if we can help you with these or any other tax or accounts matters.

In addition, if there's anyone else who you think would benefit from the newsletter, please forward the email to them or ask them to contact us to be added to the newsletter list.

New Clients Welcome

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If you are not already a client and are interested in becoming one, we would love to come to meet with you to discuss how we can help and provide you with a competitive quote for our services.

All new client consultations are provided free of charge and without obligation.

About Us

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