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SPRING 2017 BUDGET & 2016/17 YEAR END TAX PLANNING

THE SPRING BUDGET 2017

INCOME & BUSINESS TAX

SAVINGS

PENSIONS

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CAPITAL GAINS

- A Budget for a "stronger, fairer, more global Britain"

Given the impending new tax year, now is a perfect time to review your affairs and ensure any unused exemptions or reliefs are claimed. This document will outline planning measures to take before the 6th April 2017 and illustrate and changes introduced in the 2017 Spring Budget that will impact your financial and tax affairs going forward.

SPRING BUDGET 2017

The final Spring Budget on 8th March introduced a raft of changes and measures which may affect you. Some come into effect immediately while others will begin from April 2018. Future budgets will occur in the Autumn with subsequent Spring statement.

INCOME TAX

- The Self-Employed were targeted as the main rate of Class 4 NI was due to increase 2% over the next two years, however a u-turn by the Chancellor a week after the Budget saw this scrapped and there will therefore be no changes to Class 4 NI.
- Class 2 NI, which is payable at £2.80 per week where sole-trade profits exceed £5,965 a year, will be abolished from April 2018.
- The tax-free personal allowance will rise as planned to £11,500 this year and to £12,500 by 2020.
- As previously announced, the Higher Rate tax threshold will increase to £45,000 from April 2017.
- Tax-free dividend allowance to be reduced from £5,000 to £2,000 from April 2018.

V.A.T.

- The compulsory threshold to register for V.A.T. will increase to £85,000 from £83,000 from 1st April 2017. The deregistration threshold will also rise by £2,000 to £83,000.
- Changes to the Flat-Rate Scheme will go ahead as planned. HMRC are introducing a new flat rate of 16.5% for limited costs traders which will affect the majority of personal service companies, in effect, 99% of the VAT charged to customers will be payable to HMRC. Please contact your Accounts Manager for more information.

BUSINESS TAX

- As previously outlined, the rate of Corporation Tax will be reduced 1% to 19% from April 2017.
- The Public Sector IR35 reforms will go ahead as planned from April 2017. For more information on this, please visit here.
- The starting thresholds before Employers' and Employees' National Insurance Contributions are payable will be aligned from April 2017 at £157 per week.

MAKING TAX DIGITAL

- HMRC have revised the timetable for MTD and deferred the compulsory registration of small businesses by 12 months.
- Businesses with a turnover in excess of the V.A.T. threshold (£85,000 from 1st April 2017) will have to comply by April 2018.
- April 2019 will see the remainder of V.A.T. registered businesses and those with a turnover above £10,000 (including landlords and sole-traders) join the scheme.
- Businesses liable for Corporation Tax will be affected from April 2020.

2016/17 YEAR END TAX PLANNING

INCOME TAX

Actions to consider

- Review your salary level for 2017/18. As a director you have the power to set this – consider a lower salary, so more dividends are taxable at the 7.5% Basic Rate as opposed to the 32.5% Higher Rate going forward. Please contact your Account Manager for more guidance.
- Ensure you have fully utilised your Basic Rate tax band for 2016/17 and consider drawing a further dividend before 6th April 2017. Your income (salary + other income + gross dividends) can reach £43,000 before Higher Rate tax becomes due.
- If you have already exceeded the allowance, consider Gift Aid donations or personal pension contributions to extend your Basic Rate tax band.
- Make use of the £5,000 dividend allowance for yourself and your spouse.

SAVINGS

Actions to consider

- Basic Rate taxpayers can earn £1,000 from savings (bank interest) tax-free. This is reduced to £500 for Higher Rate taxpayers. Additional Rate taxpayers (over £150,000) do not receive this.
- Individuals who are 18 or over can invest up to £15,240 in an ISA. Withdrawals from an ISA are free of income and capital gains tax, but the value of an ISA will form part of your estate for inheritance tax purposes.
- Consider setting up a Junior ISA for your children and utilising the £4,080 allowance. A family of four can, in theory, invest £38,640 in tax-free in total before 6th April 2017.

- Help to Buy ISAs allow individuals over the age of 16 to save up to £200 into an account per month. Buyers can also deposit a lump sum of up to £1,200 when they set up their account. The money will earn interest and will also qualify for a 25% bonus (up to £3,000) from the government provided the funds are used to purchase a property.

PENSIONS

There is an annual limit on pension contributions of £40,000, with a lifetime limit of £1 million (from 6th April). It is possible to carry forward any unused allowances from the previous three tax years however a scheme must have been in place for those years. For those earning over £150,000, the pension limit is restricted by £1 for every £2 of income in excess of £150,000, down to a minimum of £10,000.

Contributions can be made personally to receive tax relief by extending the Basic Rate tax band (and thus having more dividends taxed at 7.5% as opposed to 32.5%) or via your limited company. The company receives Corporation Tax relief for contributions made on your behalf.

Actions to consider

- You don't need to be in work to contribute to a scheme; you can pay in £2,880 net (£3,600 gross) into a plan for your partner or children.
- Set up a scheme and make a contribution before 6th April 2017 to benefit from tax relief on your 2016/17 tax return or next company accounts if paid as an employer contribution.
- If you are 55 or over you can access your pension fund with no restrictions on the amount you can withdraw. You can draw down the entire pension fund if you choose, although there are tax consequences. The rules also allow you to take a 25% tax-free lump sum.
- Review the possibility of making use of the 2013/14 allowance before as this will expire on 5th April 2017.

INVESTMENTS

For the budding Dragons out there looking to invest in new companies, the Enterprise Investment Scheme (EIS), Seed Enterprise Investment Scheme (SEIS) and Venture Capital Trusts (VCTs) offer significant tax reliefs and CGT advantages. It is important to remember that the relief given for these is high due to the risk involved and specialist advice should be sought.

EIS

- Tax relief given on investments in qualifying small companies.
- Income tax relief is provided at 30% on up to £1 million invested in 2016/17 provided they are owned for at least three years. Investments made during a tax year can also be carried back and treated as made in the previous tax year.
- Capital Gains are exempt on the disposal of these shares after three years or where reinvested again into qualifying EIS shares.

SEIS

- Similar to EIS, SEIS investments are those in companies less than two years old.

- SEIS income tax relief at 50% on amounts invested up to £100,000 in 2016/17, provided the shares are held for three years. Investments made during a tax year can also be carried back and treated as made in the previous tax year.

- Capital Gains on the disposal of any asset can be 50% exempt by reinvesting the gain in qualifying SEIS shares, provided reinvestment is made in the same tax year. Gains on SEIS are not subject to CGT after three years of ownership.

VCT

- Venture Capital Trusts are quoted investment trusts that invest in a range of relatively small trading companies. You can obtain income tax relief of 30% by subscribing up to £200,000 for shares in VCTs in 2016-17. Gains are generally exempt from CGT after five years.

PROPERTIES

Actions to consider

- Make use of Rent-a-Room relief of £7,500 where you rent out a room or rooms in your principal residence. This is a huge boost to those living in popular tourist areas and let a room using websites such as Airbnb.

- If you are considering investing in a buy-to-let property, consider using a limited company vehicle where a mortgage is required (although using an existing trading company would not be advisable).

CAPITAL GAINS

Actions to consider

- You should aim to utilise this year's allowance before 6th April. If you have already used this year's allowance, review any losses you have made to offset this.

- You may be able to utilise a spouse or civil partners allowance by transferring a portion of the asset to them, especially if they are a Basic Rate taxpayer. Please consult one of our tax managers before considering this.

INHERITANCE TAX

Inheritance tax (IHT) is payable by UK-domiciled (or deemed domiciled) individuals on their worldwide assets. Non-domiciled individuals are only subject to IHT on UK assets. From 6th April 2017, an individual will be considered UK domiciled where they have been UK resident for 15 of the last 20 years. Non-doms born in the UK with a UK domicile of origin will generally be deemed domiciled from the date at which they become UK resident but will be able to benefit from a limited grace period for IHT purposes only.

Actions to consider

- Non-domiciled individuals should consider the impact of the imminent changes to the domicile rules on their IHT position before becoming deemed UK domiciled. Where appropriate, this should include reviewing existing offshore trust structures and residential property holdings.

- Consider gifting assets during your lifetime to minimise the IHT payable on your death. Such gifts will fall outside the IHT net after seven years, provided you do not reserve a benefit in the asset transferred. By making a gift now, you can start the seven-year IHT 'clock', and after three years the amount of IHT potentially payable on the gift is tapered. The gifting of assets can give rise to CGT and may impact upon your lifestyle, so professional advice should always be obtained.

- Make use of other IHT reliefs and exemptions, such as the annual gifts exemption of £3,000 (£6,000 if no gifts were made during 2015-16) the small gifts allowance of £250 per donee, and gifts made in consideration of marriage (£5,000 to children, £2,500 to grandchildren, and £1,000 to anyone else).

If you have any questions regarding any of the content in this document, please contact your Accounts Manager.