



# Green&Co

## ACCOUNTANTS AND TAX ADVISORS

Pembroke House  
Llantarnam Park Way  
Cwmbran NP44 3AU  
T: 01633 871122  
F: 01633 871100  
mail@greenandco.com  
www.greenandco.com

## Tax Matters

### Spring 2017 inside this issue...

- ▶ 2016 Autumn Statement highlights
- ▶ Spotlight on corporation tax
- ▶ VAT flat rate scheme changes ahead
- ▶ Tax Round-up
- ▶ Tax Tip
- ▶ Reminders for your Spring diary



## Salary sacrifice: how will the changes affect you?

From April 2017 the tax and employer national insurance advantages associated with certain types of salary sacrifice schemes are set to be removed. Here we provide an overview of the changes and how they may affect you.

### An overview of the scheme

Salary sacrifice allows employees to exchange a portion of their cash pay in return for non-cash benefits-in-kind (BiK). The effect of these arrangements, depending on the BiK, is often to reduce the amount of tax and employee/employer national insurance contributions (NICs) due on the employee's remuneration.

Employees who wish to opt into or out of a salary sacrifice scheme must have their contract amended by their employer. An employee's contract must clearly outline their cash and non-cash entitlements.

In addition, employers have a requirement to report any non-cash benefits to HMRC at the end of the tax year by completing the relevant sections on the P11D form.

### Changes from April 2017

In his 2016 Autumn Statement, Chancellor Philip Hammond announced that from April 2017 the tax and employer national insurance advantages of salary sacrifice schemes will be removed.

This will mean that employees swapping salary for benefits will pay the same tax as individuals who buy them out of their post-tax income. However, certain benefits will be exempt from the changes.

### Which benefits will be affected?

Under the new rules, certain arrangements will no longer offer tax and NIC benefits. These include:

- cash and non-cash vouchers
- living accommodation
- school fees
- cars (excluding ultra-low emission cars – see later) and fuel
- vans and fuel
- beneficial loans.

### Which benefits are not affected by the new rules?

Certain benefits will escape the changes. These include:

- pension contributions and arrangements (including pensions advice)
- childcare vouchers
- workplace nurseries
- Cycle to Work schemes
- ultra-low emission cars with CO<sub>2</sub> emissions of up to 75 g/km.

Arrangements made before April 2017 will be protected until April 2018. Arrangements put in place for cars, educational fees and accommodation will be protected until April 2021.

### What the changes mean for you

Employers and employees may want to rethink their salary sacrifice arrangements. Many salary sacrifice schemes will be affected under the new rules. While employees may still be eligible to join salary sacrifice schemes up until the 6 April 2017 deadline, after this point remaining in an affected scheme could result in an additional tax bill and employers will no longer benefit from employer NIC savings. Employers may also need to review their employees' contracts.

**To discuss benefits-in-kind or salary sacrifice in more detail, please get in touch.**





## 2016 Autumn Statement highlights

Chancellor Philip Hammond unveiled a number of key measures in the Autumn Statement, including changes to the VAT flat rate scheme, corporation tax and salary sacrifice, as set out in this newsletter. Here we outline some of the other main announcements.

### Business measures

#### National insurance contributions (NICs)

The national insurance secondary (employer) threshold and the national insurance primary (employee) threshold will be aligned from 6 April 2017, meaning that both employees and employers will start paying national insurance on weekly earnings above £157.

As previously announced, Class 2 NICs will be abolished from April 2018. It has been confirmed that, following the abolition, self-employed contributory benefit entitlement will be accessed through Class 3 and Class 4 NICs. All self-employed women will continue to be able to access Contributory Employment and Support Allowance through Class 3 NICs. There will be provision to support self-employed individuals with low profits during the transition.

#### Employee shareholder status (ESS)

The tax advantages linked to shares awarded under ESS have been abolished for arrangements entered into on or after 1 December 2016, and the status itself will be closed to new arrangements at the next legislative opportunity.

#### Rural rate relief

Rural rate relief will increase from 50% to 100% in April 2017. This is available to businesses in rural areas with a population under 3,000, where that business is the only village shop or post office with a rateable value of up to £8,500; or the only public house or petrol station with a rateable value of up to £12,500.

#### Research and Development (R&D)

The National Productivity Investment Fund will provide an additional £4.7 billion in R&D funding by 2020/21. The government will also look at ways to build on the 'above the line' R&D tax credit, with the aim of further incentivising R&D.

#### British Business Bank

The British Business Bank will invest an additional £400 million in venture capital funds, in order to 'unlock up to £1 billion of new investment in innovative firms planning to scale up'.

### Personal measures

#### Income tax

The personal allowance will rise to £11,500 from 6 April 2017, while the higher rate threshold will increase to £45,000, as previously planned. The government has committed to raise the income tax personal allowance to £12,500 and the higher rate threshold to £50,000 by the end of this Parliament.

#### NS&I Investment Bond

NS&I will offer a new three-year savings bond from Spring 2017, with an indicative interest rate of 2.2%. The bond will be open to those aged 16 and over, and will be subject to a minimum investment limit of £100 and a maximum investment limit of £3,000.

#### ISA limits

From 6 April 2017, the annual subscription limit for Junior ISAs and Child Trust Funds will be uprated in line with CPI to £4,128. As previously announced, the ISA limit will rise from £15,240 to £20,000.

#### National Living Wage and National Minimum Wage

The rate of the National Living Wage will increase to £7.50 from April 2017. The government has accepted the recommendations of the Low Pay Commission for the National Minimum Wage. From April 2017 the new rates will be as follows:

£7.05 per hour for 21-24 year olds

£5.60 per hour for 18-20 year olds

£4.05 per hour for 16-17 year olds

£3.50 per hour for apprentices (under 19, or 19 or over and in the first year of their apprenticeship).

#### Money Purchase Annual Allowance (MPAA)

April 2015 saw the introduction of new pension flexibilities. Once an individual has accessed their pension savings flexibly, if they wish to make any further contributions to a defined contribution pension, tax-relieved contributions are restricted to a special MPAA. Subject to consultation on the detail, the MPAA will be reduced from £10,000 to £4,000 from April 2017.

#### Insurance premium tax (IPT)

The standard rate of IPT will rise again from 1 June 2017, from 10% to 12%, marking a doubling of the tax within a period of just over 18 months.

“ We resolve . . . to confront [our] challenges head on. To prepare our country to seize the opportunities ahead. And in doing so, to build an economy that works for everyone. ”

Chancellor Philip Hammond

The Chancellor also revealed that his first Autumn Statement would be his last, as following the Spring 2017 Budget and Finance Bill, future Budgets will be delivered in the Autumn.

# 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<sub>2</sub> 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.**



## Tax Round-up

### Pension annuities plans abandoned

The government recently announced its decision to shelve plans to allow current pension annuity holders more flexibility to sell their annuities for cash. The idea was first proposed by the former Chancellor, George Osborne, in March 2015, following on from the changes allowing wide-ranging pension freedoms.

The scheme would have given those who already hold an annuity similar freedoms to individuals approaching retirement, who are no longer required to use their pension pot to purchase an annuity. Individuals would have been able to sell their annuity income without the current tax restrictions, providing their annuity provider agreed.

The idea was, however, dogged by controversy after some experts raised concerns that consumers who sold their annuity would not get good value for money in a market that was likely to be small, with an insufficient number of purchasers.

### Scottish Draft Budget published

The Scotland Act 2016 devolved more landmark powers to the Scottish government and on 15 December, Finance Secretary Derek Mackay presented the Scottish Draft Budget for 2017/18.

Mr Mackay revealed that the Scottish government proposes to freeze the Scottish basic rate of income tax at 20% and also to freeze the Scottish higher and Scottish additional rates at 40% and 45% respectively.

However, the Scottish government has decided not to follow the UK government's plans to extend the threshold for paying the higher rate level of income tax of 40p, from £43,000 to £45,000 for 2017/18.

Instead, the higher rate income tax threshold in Scotland will increase by inflation to £43,430 in 2017/18, while the additional rate of tax of 45% remains payable on taxable income above £150,000. The higher rate income tax threshold will increase by a maximum of inflation in all future years of the current Parliament.

Mr Mackay also confirmed that there will be no changes to the Land and Buildings Transaction Tax (LBTT) rates in 2017/18. Looking further ahead, the Scottish government will introduce a Bill in the first year of the current Parliament to establish the tax which will replace Air Passenger Duty (APD) in Scotland from 1 April 2018. The Scottish Parliament has said it is committed to delivering a 50% reduction in the overall tax burden of APD by the end of the Parliament.



**If you think you may be affected by the Scottish tax changes, please contact us for advice.**

**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**

<p><b>March</b></p> <p>1 New advisory fuel rates applicable from this date.</p> <p>2 Last day to pay any balance of 2015/16 tax and NICs to avoid an automatic 5% late payment penalty.</p> <p>31 End of corporation tax financial year.</p> <p>End of CT61 quarterly period.</p> <p>Filing date for Company Tax Return Form CT600 for period ended 31 March 2016.</p> <p><b>April</b></p> <p>5 Last day of 2016/17 tax year.</p> <p>Deadline for 2016/17 ISA investments.</p>	<p>Last day to make disposals using the 2016/17 CGT exemption.</p> <p>14 Due date for income tax for the CT61 period to 31 March 2017.</p> <p>19/21 Quarter 4 2016/17 PAYE/ Class 1 NICs remittance due.</p> <p><b>May</b></p> <p>1 Start of daily penalties for 2015/16 online Self Assessment Tax Return not yet filed. Additional penalties may apply for further delay.</p> <p>3 Submission date of P46 (Car) for quarter to 5 April.</p> <p>31 Last day to issue 2016/17 P60s to employees.</p>
--	--