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CHARTERED ACCOUNTANTS

Spring Budget 2017

What it means for both individuals and businesses

Budgets, once shrouded in secrecy, are now leaked to such an extent that we wonder why the Chancellor himself doesn't just relax with his copy of the Mail. We are promised tax rises to fund a Brexit war chest, and some response to pressure on business rates. The BBC, clearly desperate to put something on the web site ahead of the budget, published pictures of successive Chancellors holding the red box, and compared their postures. Meanwhile, the NHS burns…

This will be the last Spring Budget; the main budget moves to the Autumn – so we get two of them this year - and the review in Spring 2018 is intended not to deal with significant fiscal measures.

At LFF, we are not in competition with newspapers or the BBC; we aim to pick out the details that will be most relevant to our personal and business clients, and we include a round-up of recent measures that are now, or soon will be, in effect.

To the surprise of many, Philip Hammond did not mention either war chests or even Brexit. Cheerful and confident, he began with a joke about Norman Lamont, following that with another one about spreadsheets. He is renowned for liking spreadsheets nearly as much as we do, but he clearly doesn't like Jeremy Corbyn who was the butt of several playful jibes as the speech progressed.

Headline figures

There were no big reforms in this budget. For 2017-18, we see additional expenditure of £1,200m on social care, £250m on the NHS and £180m supporting business rates, with little by way of additional revenue to pay for those measures. New revenues start in 2018-19: about £500m more from Class 4 NIC and £900m from the reduction in the dividends nil rate band.

Personal Tax

The personal allowance is £11,000 for 2016-17, rising to £11,500 for 2017-18. 10% of this is transferable between spouses where one half of the couple has income below the personal allowance while the other pays tax at no more than basic rate. Confusingly, they have renamed this the "marriage allowance" despite its not being a separate allowance. A lot of eligible couples have not claimed the transfer, so talk to us if you think you've missed out.

The basic rate is still 20%; the higher rate of 40% starts at £32,000 for 2016-17 and £33,500 for 2017-18. The additional rate of 45% still starts at £150,000, but the personal allowance starts disappearing once income exceeds £100,000, resulting in an effective tax rate of 60% for income between £100,000 and £123,000.

Bank and building society interest (with base rate at 0.25% there's not a lot of it to worry about) is no longer paid net of basic rate tax. While the first £1,000 will be tax free (only £500 for higher rate taxpayers), anybody with more than that will have to pay tax either on their annual tax bill or by way of an adjustment to a PAYE code. This is one reason why we've had a lot of enquiries by clients who are puzzled by their tax code.

For 2016-17 and 2017-18, the first £5,000 of dividends are taxed at a zero rate (this also is not an allowance, since it uses up some of the basic rate band). The Chancellor is concerned about too many companies being formed in order to save tax, so the zero rate band will reduce to £2,000 from April 2018.

Trading and property income

From April 2017 there are two £1,000 allowances for trading income and property rental income. Where the gross income exceeds £1,000 you can choose either to deduct the allowance or the expenses actually incurred.

From the same date there will be new restrictions on finance costs such as interest and fees for property businesses. This will be phased in over the next four years. For 2017-18 only 75% of the interest can be deducted as an allowable cost. Landlords will be able to claim basic rate tax relief on the remaining 25%. The percentage will increase to 50% in 2018 and 75% in 2019, so by 2020 this will mean that all of the interest will attract only basic rate relief.

This year the government will be consulting on how to target rent-a-room relief (£7,500 tax free) towards longer term lettings; this is probably inspired by Airbnb.

National Insurance Contributions

As previously announced, Class 2 contributions (self-employment contributions at a fixed rate) are abolished from April 2018. The self-employed continue to pay Class 4 contributions as a percentage of profits. Last time round, we suggested that Class 4 contributions might go up to compensate. We now know that the rate goes up from 9% to 10% from April 2018 and then to 11% from April 2019. We like to be surprised occasionally, but today wasn't our day for that.

Corporation Tax

Corporation Tax is reduced to 19% from 1 April 2017, remaining at that level for two years, reducing to 17% from 1 April 2019.

Business rates

The recent revaluation has had a significant impact on many small businesses, despite exemptions for the smallest properties. Some reductions are available during a transitional period beginning in April 2017, with increases capped at £600 for businesses coming out of the 100% business rate relief band. Most pubs will benefit from a discount of £1,000 for 2017-18 only.

Value Added Tax

Clients will be aware from our last Autumn Statement circular and later update that significant changes are coming in from 1 April for the VAT flat rate scheme. These changes affect traders who have low expenditure on goods.

If you are using the flat rate scheme and think you may be affected by the changes, action is needed this month. We can help you decide what to do by explaining the effect on your business and quantifying the alternative possibilities of deregistration or using the standard VAT scheme.

Clients with VAT quarters which span 1 April will need to apply two flat rates in one quarter. If you are considering leaving the scheme, it would be easiest to do this from the end of your last quarter under the “old” rules.

In order to improve VAT collection, the government is considering collecting output tax for online sales at the point of sale; perhaps this will feature in the Autumn Budget.

Childcare system

Tax-free childcare will shortly be available for working families with children under 12, providing up to £2,000 a year for each child to help with childcare costs. Parents will need to open an online account which anyone can pay into; the government will top up contributions by the equivalent of basic rate tax.

To qualify, parents have to be working, earning at least £115 per week and not more than £100,000 each per annum. Self-employed parents will benefit from a "start-up" period during which they won't have to meet the minimum income threshold.

The current employer childcare scheme will continue to be open to new entrants until April 2018, and any parents already in this scheme by this date will be able to continue using it for as long as their employer offers it.

Making Tax Digital (MTD)

Whilst the government has confirmed its commitment to MTD, details remain thin on the ground. Every individual and business will have a Digital Tax Account, showing all their tax liabilities in one place and in real-time. The Personal Tax Account for individuals has already been opened and will include all Income Tax information from April 2018, with VAT and Corporation Tax being integrated in 2019 and 2020 respectively.

The impact will largely be felt by businesses, which will be required to report quarterly. HMRC will provide an online tool and (some) commercial software providers are also expected to have the ability to report directly. The claim that the transition and reporting will be 'at minimum cost and minimum disruption', is considered optimistic by just about everybody other than HMRC.

For individuals with PAYE income this will not represent much of a change, and landlords and self-employed individuals with income under £10,000 will initially be exempt. The self-assessment tax return will eventually be retired in favour of MTD; meanwhile it will serve as an annual adjustment. For businesses under the VAT registration threshold (£85,000 from 1 April 2017) the chancellor confirmed that quarterly reporting will be delayed for a year until April 2019.

Accounting update

2017 sees all small companies facing a choice regarding their accounts, following changes to accounting standards for periods beginning on or after 1 January 2016. Whilst larger companies will be using full FRS102 (the new accounting standard), small companies can choose either the reduced disclosures available for FRS102 - section 1A - or the micro-entity regime. The thresholds for smaller entities under FRS102 are increasing (two out of three - turnover £10.2m; gross assets £5.1m; employees 50); the audit thresholds will also be rising to match.

The micro-entity regime is available for the smallest companies below two out of three thresholds - turnover £632,000; gross assets £316,000; employees 10. Micro accounts are significantly condensed in size and complexity, with fewer notes and reduced related party disclosures.

Common Reporting Standard (CRS)

The CRS reporting requirements were designed as a global approach to combat tax avoidance, and require banks and investment managers to report all income and account information to tax authorities.

An unfortunate consequence of this is that some charitable trusts are caught by the regulations. This only affects unincorporated charities, which generate over 50% of their income from investments, and where these investments are managed on a discretionary basis by a Financial Institution.

If there is a likelihood that your trust may be caught by CRS then please come and talk to us. There is a requirement to hold additional information about trust beneficiaries, and to report annually to HMRC, with the first deadline being 31 May 2017.

Thank you for reading this far

Amy and John have co-authored this newsletter with a number of partners and colleagues, so it's a team effort, as always. It's a rapid reaction, so there is time for further thought. Please let us know if we can provide any further information.

Best wishes to all our clients and friends.

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