

Monthly Update | January 2017

Welcome to our monthly tax newsletter designed to keep you informed of the latest tax issues.

We hope you enjoy reading the newsletter; remember, we are here to help you so please contact us if you need further information on any of the topics covered.

Best wishes

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More Bad News for Public Sector Workers “Off Payroll”

In his Autumn Statement the Chancellor announced that the Government will implement significant changes to the taxation of workers providing their services to the public sector through their own company or via an agency. These new measures have now been included in draft clauses to be included in Finance Act 2017 which were issued for consultation on 5 December 2016. If brought in, new rules will apply from 6 April 2017.

“Public sector” includes central and local government, the NHS, state schools, and bodies such as the BBC.

The new rules will put the onus on the public sector engager or agency supplying the public sector body to determine whether or not the IR35 personal service company and intermediary rules apply to the relationship, and if so deduct and pay over income tax and national insurance on behalf of the worker. This will be a major change as currently the worker and his company/ intermediary has to determine whether or not IR35 applies.

A further change proposed from 6 April 2017 is that the worker will no longer qualify for a 5% deduction currently deemed to cover administration costs.

These changes come on top of restrictions to relief for such workers’ travelling expenses that came into effect from 6 April 2016.

Please contact us if these changes are likely to apply to you.

More Tax Free Allowances from 6 April 2017

In addition to the current £5,000 tax free dividend allowance and the personal savings allowance of up to £1,000 there will be two further tax free allowances starting from 6 April 2017. These will be a new £1,000 tax free allowance for self-employed income and a £1,000 rental income allowance.

These new allowances mean that individuals doing a small amount of self-employed work or receiving a small amount of rental income will not need to report such income and consequently may fall outside self-assessment.

Note that the £1,000 allowances are the gross amounts that will be tax free each year. Where the gross income exceeds £1,000 there will be the choice of paying tax on the excess over £1,000 or deducting allowable expenses in the normal way.

For example Mr Nikon has a full time employment but also has a part - time photography business earning £1,500 a year with £800 of business expenses. Rather than paying tax on the net profit of £700 the new system will mean that he will only be taxed on £500 (£1,500 less the £1,000 allowance).

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If his gross income was below £1,000 it would be tax free and would not need to be reported to HMRC, probably keeping him outside of self-assessment.

Don't Forget "Rent a Room" Relief

Whilst on the subject of tax free allowances remember that there is a further £7,500 a year allowance deducted from rent received from lodgers where you rent out part of your main residence.

This allowance increased from £4,250 from 6 April 2016 so that now the first £7,500 rent from lodgers is tax free. Where income from lodgers exceeds £7,500 a year only the excess is taxable.

Tax Free Childcare Accounts To Start 6 April 2017

New tax-free childcare accounts were announced in 2014 to replace the employer-provided childcare voucher scheme. Introduction has been delayed by legal disputes with organisations involved in administering the existing scheme, but the new accounts will at last be introduced on a trial basis in early 2017.

The new scheme will then be rolled out across the country based on the results of the trial. The rules are complex, but where both parents work and earn at least £115 per week, they will be able to put up to £8,000 a year into a special account which the Government will top up with 20p for every 80p contributed by the parents. This account can only be used to pay for childcare such as nursery fees.

It is anticipated that the new scheme will eventually replace the existing childcare voucher scheme which is only available to employees who work for organisations that offer such schemes.

The new system will benefit the self-employed as well as those workers in organisations that currently do not provide childcare vouchers.

Passing on the Family Home

New inheritance tax rules for passing on the family home start on 6 April 2017 and many people have a New Year's Resolution to either make a Will or update their Wills. This new relief should be taken into consideration when drafting your Will and we can work with your solicitor to make sure it is tax efficient.

From 6 April 2017 a new nil rate band of £100,000 will be available on death where your residence is left to direct descendants. This is in addition to the normal £325,000 nil rate band and will increase over the next 4 years to £175,000 in 2020. You may recall that when this was originally announced in summer 2015 the chancellor said that a married couple should be able to pass on their family home worth up to £1 million free of Inheritance tax. The rules are fairly complicated and HMRC have recently issued guidance on how the new relief will operate. We can review your personal circumstances to ensure that you take advantage of all relief that you are entitled to.

Downsizing To a Smaller Property

One of the features of the new inheritance tax rules for passing on the family home is that the relief is protected even when you downsize to a smaller property.

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For example if a married couple currently live in a large house worth £800,000 and downsize to a flat worth £300,000 they could give away some of the proceeds during their lifetime and yet still benefit from inheritance tax relief based on the higher valued property. They could even sell up completely and move into a rental property and get the inheritance tax relief!

This would very much depend on the timing of such planning and, as mentioned above, the rules are very complicated so contact us to discuss how this can apply in your family circumstances.

More on the New Higher Vat Flat Rate Percentage

As covered in the Autumn Statement newsletter a new VAT flat rate of 16.5% applies from 1 April 2017 for "limited cost traders". This is being introduced as HMRC believe that the current system is being abused by some businesses providing their labour but who have very few costs.

The flat rate scheme was originally introduced as a simplification measure for small business as they merely pay a percentage depending on the type of business to their VAT inclusive turnover. For many businesses this process takes about 5 minutes but in future they may have to add up all the input tax on their expenses and deduct that from the output tax on their sales which will often take a lot longer!

Take for example a training consultant who bills his clients £100,000 a year, £120,000 inclusive of VAT. Using the flat rate scheme he currently pays 12% to HMRC = £14,400.

If the VAT inclusive cost of his goods for the year is less than £2,400 (2%) excluding capital expenditure, food, fuel, vehicle costs then he would have to pay £19,800 to HMRC! It would almost certainly be beneficial for him to stop using the flat rate scheme.

If you are currently using the VAT flat rate scheme contact us to discuss whether the changes will apply to you

Advisory Fuel Rate for Company Cars

These are the suggested reimbursement rates for employees' private mileage using their company car from 1 December 2016. Where there has been a change the previous rate is shown in brackets.

| Engine Size | Petrol | Diesel | LPG |
|------------------|-----------|--------|-----|
| 1400cc or less | 11p | | 7p |
| 1600cc or less | | 9p | |
| 1401cc to 2000cc | 14p (13p) | | 9p |
| 1601 to 2000cc | | 11p | |
| Over 2000cc | 21p (20p) | 13p | 13p |