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Client Newsletter

Autumn 2015
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The Second Budget 2015: some key measures

In what was arguably one of the most significant Budgets in recent years, Chancellor George Osborne took the opportunity to 'get Britain's house in order' by announcing a series of changes affecting business, tax and welfare. Here we outline some of the major changes that could affect you and your business.

Business Measures

Annual Investment Allowance (AIA)

The maximum amount of AIA is currently £500,000 for all qualifying expenditure on plant and machinery from 1 April 2014 for corporation tax and 6 April 2014 for income tax. This limit will be reduced to £200,000 (instead of the previously announced £25,000) with effect from 1 January 2016.

The Employment Allowance

From April 2016 the Employment Allowance will increase from £2,000 to £3,000 per year. However, companies where the director is the sole employee will no longer be able to claim this allowance.

Corporation tax

The corporation tax main rate will be reduced to 19% for the financial years beginning 1 April 2017, 1 April 2018 and 1 April 2019, and 18% for the financial year beginning 1 April 2020.

The new National Living Wage

From April 2016 a new National Living Wage (NLW) in the form of a premium on top of the National Minimum Wage will be introduced for workers aged 25 and above. Initially set at £7.20, it is expected to rise to over £9 by 2020.

Personal Measures

Personal allowance

The income tax personal allowance will be increased to £11,000 for 2016/17, with a view to reaching £12,500 by 2020. The basic rate limit will rise to £32,000 for 2016/17.

Inheritance tax (IHT) allowance

An additional nil-rate band will be introduced where a residence is passed on death to a direct descendant. This will be £100,000 in 2017/18 and will increase by £25,000 each year until it is £175,000 in 2020/21.

This will affect individuals, with direct descendants, who have an estate (including a main residence) with total assets above the IHT threshold (or nil-rate band) of £325,000. The changes mean that families could pass on up to a total of £1m to their children without paying inheritance tax.

Pensions annual allowance

From 6 April 2016, for those with income (including the value of any pension contributions) above £150,000, the benefits of pensions tax relief will be restricted by tapering away their annual allowance to a minimum of £10,000. Legislation will also be introduced to align pension input periods with the tax year as well as transitional rules to protect savers who might otherwise be affected by the alignment of their pension input periods.

Dividend tax reforms

The Dividend Tax Credit, which reduces the amount of tax paid on income from shares, will be abolished from April 2016 and a new Dividend Tax Allowance of £5,000 a year will be introduced. The new rates of tax on dividend income above the allowance will be 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers.

Please contact us to discuss how the measures announced in the Second Budget may affect you and your business.

Disclaimer: *The measures detailed above were announced in the 2015 Second Budget and stand to be implemented at the time of this newsletter going to print.*

Tax-Free Childcare: winners and losers

The new Tax-Free Childcare scheme will provide eligible parents with childcare support worth up to £2,000. Originally set to be launched this Autumn, the Government has now confirmed that the scheme will be available from 2017. While an estimated two million households will qualify for the scheme, parents who are entitled to Employer-Supported Childcare will need to assess whether they will be better off under the new system.

Tax-Free Childcare

Under the new scheme, eligible parents will be required to open an online account, into which they can contribute money to pay for childcare. The Government will then 'top up' payments at a rate of 20p for every 80p that families pay into the account, which will be capped at £2,000 (£4,000 where the child is disabled).

A child will qualify for the scheme until the first week in September following their eleventh birthday or, for disabled children, until the first week in September following their sixteenth birthday. To be eligible for Tax-Free Childcare all parents in the household must:

- meet a minimum income level based on working eight hours per week at the National Minimum Wage
- each earn less than £150,000 a year, and
- not already be receiving support through Tax Credits or Universal Credit.

Unlike Employer-Supported Childcare, self-employed parents will also be eligible to participate.

Employer-Supported Childcare (ESC)

ESC such as childcare vouchers may be offered in addition to employees' pay or as a reduction in pay (commonly known as salary sacrifice). Under salary sacrifice the employee gives up pay, which is taxable and NIC-able, in return for childcare vouchers, which may not be. This may also save national insurance contributions for the employer.

Parents can receive up to a maximum of £55 a week, or £243 a month, in childcare vouchers, although the exact amount will depend on how much they earn, when they joined the scheme and whether the child is disabled. Vouchers are available per parent, so two working parents paying basic rate tax could be entitled to £486 of vouchers each month. However, it is important to note that a salary sacrifice arrangement may affect entitlement to certain benefits.

The current system of ESC is expected to be closed to new entrants once the new Tax-Free Childcare scheme is available. However, ESC will continue to be available for current members if they do not wish to switch to the new scheme.

Tax-Free Childcare vs childcare vouchers

While Tax-Free Childcare will be open to more people, individual circumstances will dictate whether parents will be better off under the new system or the existing childcare voucher scheme.

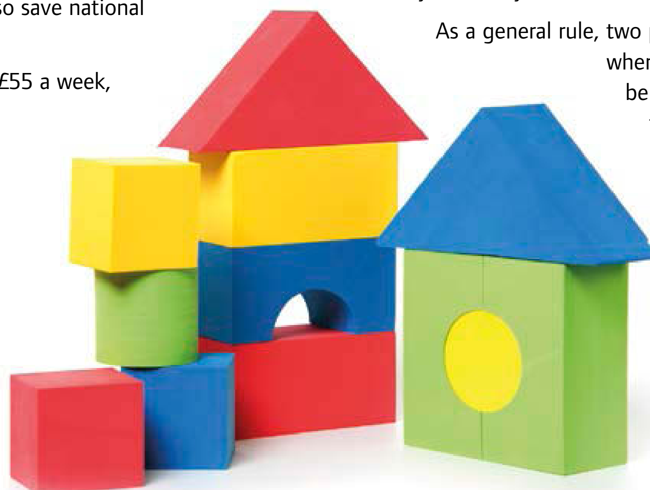
Potential winners of Tax-Free Childcare...

- Working single parents with annual childcare costs in excess of around £5,000
- Families where both parents work, and have annual childcare costs in excess of around £9,500
- Self-employed parents, if they fulfil eligibility requirements.

...and losers under the scheme:

- Two parent families where one parent does not work – they will not be eligible
- Employers – they will no longer benefit from lower national insurance contributions
- Families where either parent earns in excess of £150,000 a year – they will not be eligible.

As a general rule, two parent families with one child where both work are likely to be financially better off under the existing system, but HM Revenue & Customs (HMRC) is expected to publish guidance to parents on this matter in due course.



We can advise on a range of personal tax planning issues, so please contact us for assistance.

A van by any other name…

When selecting appropriate business vehicles, business owners may be able to choose between cars or vans. As well as taking into account your specific needs, you will want to make sure that each purchase is as tax-efficient as possible and provides the most benefits to your business.

A company van has a VAT benefit in that all of the VAT incurred on the purchase of the vehicle is recoverable. VAT recovery may be restricted for a van used by a sole trader or partner if the intended private use of the vehicle is more than de minimis. VAT for a car is unlikely to be recoverable as it is only possible to reclaim VAT on a car if it is used exclusively for business purposes.

What is the difference between a car and a van?

Here we explore HMRC guidelines on the subject.

Historically, one confusing aspect when deciding between a car or a van has been those vehicles which seem to be somewhere between the two. Car-derived vans or combination vans in today's business world may be able to function as a car while possessing the features of a van, such as a significant load area. A car-derived van is a vehicle that looks like a car from the outside. However, from the inside the vehicle looks like and functions as a van. A combination van looks like a van but it can be fitted with, or includes, more seats behind the driver's seat.

A van is not defined in the VAT legislation but a car is. A car has three or more wheels and is either:

- constructed or adapted to mainly carry passengers, or
- has roofed accommodation behind the driver's seat which is fitted with side windows or which is constructed or adapted for the fitting of side windows.

Some vehicles are specifically excluded from the definition of a car. A key example of this is a vehicle where the load area can carry a payload of one tonne or more.

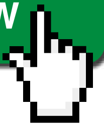
Recent developments in the industry mean that car-derived vans are now being produced with a payload of less than one tonne, blurring the lines between cars and vans.

In order to help businesses determine if VAT can be reclaimed as input tax on particular makes and models, HMRC has put together a list based on the information provided by car and van manufacturers, showing all current car-derived vans and combinations vans. The list also identifies those vehicles which are classified as cars and thus do not qualify for VAT recovery. So, for example a Mercedes Vito 190 CDI with a 'compact dualiner' is a van but if it has a 'long dualiner high roof' it is a car. The list can be found here: **https://www.gov.uk/government/publications/hm-revenue-and-customs-car-derived-vans-and-combi-vans**

Contact us for more information on how to maximise your VAT relief.

Internet trading – when is it a business?

Following the rise in internet trading through sites such as eBay, Gumtree and Amazon, HMRC has sought to clamp down on those who fail to pay tax on the profits arising from online selling.



HMRC's last campaign to target online sellers raised more than £9 million in tax, and recent reports have suggested that tax officials are once again stepping up their efforts to recoup unpaid tax.

If you sell unwanted personal items occasionally, whether through an internet auction site, classified advertisements or at a car boot sale, you will not be treated as trading for tax purposes. However, if your selling activities are more regular than this, you may be classified as 'in business' and therefore liable to tax.

Over the years, the courts have developed nine 'badges of trade' (see below), which can be used to help determine whether someone is carrying on a trade.

The nine 'badges of trade'	
Profit seeking motive	An intention to make a profit – supports trading.
The number of transactions involved	Systematic and repeated transactions – supports trading.
The nature of the goods sold	Are the goods only capable of being turned to advantage by being sold? Or do they yield income, or give enjoyment through pride of ownership?
Existence of similar trading transactions	Was this a one-off transaction or part of a pattern that suggests trading?
Changes to the goods	Were the goods repaired, modified or improved to sell more easily?
The way the sale was carried out	Were the goods sold in a way that indicates trading, or to raise cash in an emergency?
The source of finance	Was money borrowed to buy the goods? Were any profits to be used to repay the loan?
Interval between purchase and sale	Goods being traded are usually bought then sold quickly.
Method of acquisition of the goods	Goods acquired by an inheritance, or as a gift, are less likely to be the subject of trade.

HMRC states that these 'badges' will not be present in every case, and that the presence or absence of a particular badge is unlikely, by itself, to provide a conclusive answer to the question of whether or not there is a trade.

We can review your selling activities to determine whether you are liable to tax. Should you be classified as in business, you will need to register with HMRC as self-employed. We can help with this process – please contact us for advice.

Income tax, NICs and VAT 'tax lock'

In the run-up to the General Election in May, the Conservative party pledged to introduce a new law guaranteeing that there will be no increases in income tax, national insurance or VAT during the course of the Parliament.

Following their Election victory, the new all-Conservative Government has confirmed that it will legislate to set a ceiling for the main rates of income tax, the standard and reduced rates of VAT, and employer and employee (Class 1) national insurance contributions (NICs) rates, ensuring that they cannot rise above their current (2015/16) levels.

The so-called 'tax lock' will also ensure that the NICs Upper Earnings Limit cannot rise above the higher rate threshold for income tax, and will prevent the relevant statutory provisions being used to remove any items from the zero rate of VAT and reduced rate of VAT during the next five years.

Further crackdown on tax non-compliance

HMRC is set to gain greater powers and millions of pounds in additional funding as part of the Government's plans to crack down on tax evasion and non-compliance.

Following the introduction of new legislation, HMRC will, in certain circumstances, have the ability to recover tax and tax credit debts of over £1,000 directly from debtors' bank and building society accounts, including funds held in cash ISAs. It is understood that safeguards will be put in place, including a county court appeal process and a face-to-face visit to every debtor before they are considered for debt recovery.

In addition, the Revenue will be given the power to acquire data from online intermediaries and electronic payment providers to identify those operating in the 'hidden economy'. A new digital disclosure channel is also set to be created in a bid to make it simpler for taxpayers to disclose unpaid tax liabilities.

The tax authority hopes this fresh clampdown on tax evasion and aggressive tax avoidance will raise an additional £5 billion.

HMRC 'waives' fee for late tax returns

Following the exposure of a leaked memo by the media, HMRC has confirmed its stance on applying the £100 penalty for those individuals who fail to submit their self assessment tax returns on time.

Media reports suggested that HMRC would waive the £100 late filing fee as long as a 'reasonable excuse' was provided, without an individual's mitigating circumstances being subject to further investigation.

Examples of a 'reasonable excuse' include the recent death of a partner, an unexpected hospital stay, computer or software failure, HMRC service issues, fire or unexpected postal service delays.

HMRC has now confirmed that it will be focusing 'more and more resources' on investigating major tax avoidance and evasion, and that its approach to the £100 fine is in line with its 'proportionate' approach to penalty appeals.

Please note that HMRC has withdrawn all of its 0845 telephone numbers with effect from 30 June 2015. Customers are now being advised to call the tax authority's 03 helpline numbers, which can be found in the contact section of their website: www.hmrc.gov.uk

However, a spokesperson stressed that it will only accept 'reasonable excuses' at face value in respect of late 2013/14 self assessment tax returns, and only where those returns have now been received by HMRC and any tax due has been paid.

We can help to boost your business's profitability and maximise growth – please contact us for advice.

Tax Tip

Leaving a gift to charity?

The full rate of IHT is payable at 40% where your taxable estate value is in excess of £325,000. However, gifts made to one or more qualifying charities can reduce the rate of IHT payable on your estate.

If you plan to give at least 10% of your net estate to charity, the rate of tax levied on some or all of the rest may be reduced to 36%.

September

30 End of CT61 quarterly period.

Last day for UK businesses to reclaim EC VAT chargeable in 2014.

October

1 Due date for payment of Corporation Tax for period ended 31 December 2014.

5 Individuals/trustees must notify HMRC of new sources of income/chargeability in 2014/15 if a Tax Return has not been received.

14 Due date for income tax for the CT61 quarter to 30 September 2015.

19/22 Quarter 2 2015/16 PAYE remittance due.

31 Last day to file 2015 paper Tax Return without incurring penalties.

November

1 £100 penalty if 2015 paper Tax Return not yet filed. Additional penalties may apply for further delay (no penalties if online return filed by 31 January 2016).

2 Submission date of P46 (Car) for quarter to 5 October.

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