

The Budget 2017

**How will it affect you and your
business?**

The Country Park Inn, Hull
Friday 10th March



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#Budget17



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Welcome

Andrew Manderfield
Partner



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Agenda

- **Personal & Property Tax**
Michael Ball, Tax Adviser
- **Business Tax**
Paul Merrell, Partner
- **‘So what does this all mean?’**
Patrick Varley, Financial Planning Manager

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Personal and Property Tax

Michael Ball



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Personal Tax Rates and Bands

- The personal allowance for all increases to £11,500
- Basic rate tax band increased to £33,500

	Non-dividend income	Dividend income
Starting rate (0-£5,000)	0%	N/A
Basic rate (0-£33,500)	20%	7.5%
Higher rate (£33,501-£150,000)	40%	32.5%
Additional rate (over £150,000)	45%	38.1%

Personal Savings and Dividend Allowances

- **Personal Savings Allowance**
- Exempts from tax for 2017/18
 - first £1,000 of interest income for basic rate taxpayers
 - first £500 of interest income for higher rate taxpayers
 - no exemption for additional rate taxpayers
- **Dividend Allowance**
 - First £5,000 of dividends received tax free

National Insurance Contribution Rates

Class 1 National Insurance

	Employee		Employer	
	2016/2017	2017/2018	2016/2017	2017/2018
Primary/ secondary threshold*	£8,060	£8,164	£8,112	£8,164
Below threshold	Nil	Nil	Nil	Nil
Above threshold	12%	12%	13.8%	13.8%
Upper earnings limit	£42,385	£43,000	£42,385	£43,000
Above upper earnings limit	2%	2%	13.8%	13.8%

* Secondary threshold for under 21s is £45,032. Therefore no Employers' NI until salary exceeds this amount.

National Insurance Contribution Rates

Class 2/4 National Insurance		
Class 4	2016/17	2017/18
Lower profits limit	£8,060	£8,164
Upper profits limit	£43,000	£45,000
Lower profits limit to upper profits limit	9%	9%
Above upper profits limit	2%	2%
Class 2	£2.80 per week	£2.85 per week

Capital Gains Tax Rates and Bands

	2016/17		2017/18	
	Non. Res	Res	Non. Res	Res
Gain within basic rate band	10%	18%	10%	18%
Gain within higher rate band	20%	28%	20%	28%
Gain qualifying for Entrepreneurs' Relief	10%	N/A	10%	N/A

Dividend or Salary

- The optimum strategy for extraction of profits from a company is usually a small salary topped up by dividends.
- Plus qualifying year for State Pension
- In most cases optimum salary will be £8,164
- Availability of £3,000 employment allowance, may mean optimum salary is £11,100 instead
- Multiple £5,000 allowances?

Bonus vs Dividend

The cost of getting it wrong for 2017/18

- Ben is the sole shareholder of a company and is a higher rate taxpayer with no other dividend income
- The company makes additional profits in the year of £50,000
- He can either pay
 - A dividend of £40,500 (and CT of £9,500)
 - A bonus of £43,937 (and employers NIC of £6,063)
- Dividend after tax £28,963
- Bonus after tax and NIC £25,483
- Cost of getting it wrong - £3,480 (16/17 - £3,142 and 15/16 - £4,517)

Using interest as an alternative?

- The interaction of the personal allowance, personal savings allowance, the savings rate and the dividend allowance means that it may be possible to extract £22,500 from a company tax free
- Take £8,164 as a salary, £9,336 as interest and £5,000 as a dividend
- Need to have a substantial directors' loan account
- Husband and wife could get £45,000

Attack on the self-employed and companies

- Chancellor highlighted disparity in tax/NI for employees compared to self-employed and limited companies
- From April 2018:-
 - Class 4 NIC up by 1% to 10%
 - Dividend allowance reduced to £2,000
- From April 2019:-
 - Class 4 NIC up by a further 1% to 11%
- But Class 2 being abolished from April 2018 as well
- More to come?

Impact on Incorporation

Profits	2017/18			2018/19		
	Sole trader	Company	Saving	Sole trader	Company	Saving
£20,000	£2,913	£2,372	£541	£2,834	£2,578	£256
£30,000	£5,813	£4,879	£934	£5,834	£5,085	£749
£40,000	£8,713	£7,387	£1,326	£8,834	£7,593	£1,241
£50,000	£12,263	£9,894	£2,369	£12,283	£10,100	£2,183
£75,000	£22,763	£20,480	£2,283	£22,784	£20,499	£2,285
£100,000	£33,263	£31,812	£1,451	£33,284	£31,830	£1,454

Taxation of Buy to Lets

- Restriction of interest relief from 2017/18
- Increase in SDLT by 3% for purchases of second properties
- Rent-a-room relief consultation

Restriction of Interest

- Currently relief at marginal rate e.g. 20%, 40% or 45%
- New rules will restrict to 20%
- Phased in over 4 years from 2017/18

Restriction of Interest - Example

- Higher rate taxpayer has rental income of £18,000, expenses of £2,000 and mortgage interest of £9,000
- In 2016/17 tax liability will be £2,800
- In 2020/21 tax liability will be £4,600 – effective tax rate of over 65%

Restriction of Interest

- Should I incorporate my rental business?
 - Capital gains tax – incorporation relief?
 - Stamp Duty Land Tax – partnership?
 - New acquisitions?
- Transfer ownership to basic rate taxed spouse?
- Review the position

SDLT – 3% premium

- Has applied to completions on or after 1 April 2016
- 3% premium - after purchase own 2 or more residential properties and not replacing main residence
- £200K purchase – increase of £6,000
- Replacing a main residence – 36 months
- Purchase then sale – pay then refund

SDLT – 3% premium

- Can apply in some unexpected circumstances
 - Joint purchase with only one purchaser replacing main residence
- Married couples treated as one
- Buying property for children
 - Consider a Life Interest trust

Annual Tax on Enveloped Dwellings

Residential Property value	2014/15	2015/16	2016/17	2017/18
£500,000+ to £1,000,000	£0	£0	£3,500	£3,500
£1,000,000+ to £2,000,000	£0	£7,000	£7,000	£7,050
£2,000,000+ to £5,000,000	£15,400	£23,350	£23,350	£23,550
£5,000,000+ to £10,000,000	£35,900	£54,450	£54,450	£54,950
£10,000,000+ to £20,000,000	£71,850	£109,050	£109,050	£110,100
£20,000,000+	£143,750	£218,200	£218,200	£220,350

Making Tax Digital

- By 2020 plan is to have a fully digital tax system
- Taxpayers will be able to register, file, pay and update their information at any time
- Account will automatically include info. held by HMRC e.g. salary, benefits, bank interest.
- So far we have only had consultations on 'Making Tax Digital for Business' (MTDfB).
 - This includes Self Employed, Landlords, Partnerships
 - The details for other taxpayers are still unknown
- Why? - To reduce the Tax Gap
- How? - Improve tax payers record keeping by requiring them to keep records digitally
 - Using bookkeeping software or spreadsheets?
 - This does not mean a scanned copy of every invoice

Making Tax Digital

- When?
 - From 5 April 2018 for those with rents/turnover above the VAT threshold
 - From 5 April 2019 for those with rents/turnover below the VAT threshold
 - From 5 April 2020 Partnerships with turnover of £10million or more
 - From April 2020 Companies
- Who?
 - Everyone who currently does a tax return as the tax return as we know it is going
 - Largest effects will be on those who are required to keep digital records
 - Self Employed, Landlords, Partnerships and Companies
 - There will be some exemptions
 - Gross Rents/Turnover below £10,000
 - Those genuinely digitally excluded (religion, age, location etc)

Making Tax Digital

What?

- Self Employed, Partnerships and Landlords will have to:
 - Keep Records Digitally
 - Make quarterly submissions of summary records
 - 1 month deadline
 - Make end of year adjustments submission
 - 10 month deadline
 - Will include all accounting and tax adjustments

What should you be doing?

- Do you already keep digital records?
 - Yes - Speak to your software provider
 - No - Speak to your accountant about the best option for your business
 - Work with your accountant/tax adviser now to plan for the changes

Business Tax

Paul Merrell

Corporation Tax Rates

Financial Year	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Main Rate	19%	19%	19%	17%	17%
Small Rate	19%	19%	19%	17%	17%
Marginal rate	19%	19%	19%	17%	17%

Corporation Tax Losses

- Changes from 1 April 2017
- Carried forward trading losses can be set against:
 - Total profits
 - Group company profits
- Loss offset restricted to 50% of profits in excess of £5m.

Company Distributions

- HMRC concerned that individuals arrange for returns from a company to be taxed as capital rather than income to benefit from lower tax rates
- Areas of concern
 - Phoenixism
 - Special purpose companies

Trading and property income

- New tax allowance for individuals with property and trading income from April 2017
- Income tax allowances of £1,000 each, for trading and property income.
- Individuals with trading income or property income below the level of the allowance will no longer need to declare or pay tax on that income.
- Gross income before expenses.
- Those above £1,000 can deduct actual expenses or the £1,000 allowance.

Employment Taxation

- Rules for tax and NI on termination payments to be changed from April 2018
 - Tighten rules on £30K exemption
 - Employers' NI on payments above £30K
- Salary sacrifice – Tax and Employers' NI benefits to cease from April 2017, subject to exceptions / transitions.
- Changes for individuals in the public sector working through own companies from April 2017
 - Likely to be treated as employees

Employment Taxation

- Various consultations / calls for evidence requests:
 - Income tax relief on employee expenses
 - Employer provided living accommodation
 - Taxation of benefits in kind

Company Car?

- Choice – have a company car or use own car and charge for business mileage?
- If have a company car, then fuel too? Expensive
- No hard and fast rules – need to consider business v private mileage, servicing costs, ability to claim capital allowances etc
- Company car – tax on BIK but all costs paid by company. If no fuel reclaim for business miles 11-22p per mile
- Private car – reclaim 45p/25p for business miles, but bear all costs.

Car Provision

BIK position	2016/17	2017/18	2018/19	2019/20
50g/km or below	7	9	13	16
51 – 75g/km	11	13	16	19
Above 75g/km to relevant threshold	15	17	19	22
Equal to threshold	16	18	20	23
Above threshold	1% for 5g/km max 37%	1% for 5g/km max 37%	1% for 5g/km max 37%	1% for 5g/km max 37%
NB: 3% Diesel supplement – retained to 2021 at least.				

Car Provision

Capital Allowances	Currently	From April 2018
100% allowance	Up to 75g/km	Up to 50g/km
18% reducing basis	Up to 130g/km	Up to 110g/km
8% reducing basis	Over 130g/km	Over 110g/km
Low emission cars	BMW i3	100%
	Tesla	100%
	BMW i8	100%

Car benefit example

	Porsche 911 GT3	BMW i8
Cost	£100,540	£103,930
Co2	296 g/km	49 g/km
Car benefit – 2017/18	£37,200	£9,353
Car benefit – 2019/20	£37,200	£16,629
<i>Car benefit – 2020/21</i>	<i>£37,200</i>	<i>£2,078</i>
Capital allowances – Year1	£8,043	£103,930

Apprenticeship Levy

- Compulsory monthly payment from April 2017
- 0.5% of total payroll & collected through PAYE
- £15,000 allowance for every employer
- Therefore only payable by employers with aggregate group payroll in excess of £3million
- Held on a digital account & available to use to fund apprenticeships
- 10% top up from the Government

Business rates

From 1 April 2017:

- Permanently double Small Business Rate Relief to 100%
- Increase threshold from £6,000 to £12,000 rateable value
- Taper relief between £12,000 and £15,000 rateable value
- Increase threshold for Standard Business Rate multiplier to £51,000 rateable value
- Linked to new Digital Tax Accounts by 2022

Business rates reliefs

- Those losing Small Business Rates Relief will have increases limited to the greater of:
 - £600
 - Real terms transitional relief cap
- £1,000 reduction for Pubs with rateable value up to £100,000.
- £300m fund for local authorities to provide support in individual cases.

VAT – Flat Rate Scheme

- Significant change from 1 April 2017.
- New flat rate of 16.5% for “limited cost businesses”.
- Limited cost means expenditure on goods of:
 - Less than 2% of VAT inclusive turnover; or
 - Over 2%, but less than £1,000 per annum
- Need to review the conditions each period.

VAT and cash accounting

- VAT registration thresholds increasing 1 April 2017:
 - Registration threshold up from £83,000 to £85,000
 - Deregistration threshold up from £81,000 to £83,000
- Cash basis accounting threshold changes from 6 April 2017:
 - Entry threshold increasing from £83,000 to £150,000
 - Exit threshold increasing to £300,000
 - Entry threshold for Universal Credit claimants £300,000

Closing in on Tax Evasion

- Techniques to identify and fight tax evasion includes:
 - Information from other countries
 - Information from third parties (Land Registry, banks, property agents etc)
 - Campaigns
 - Taskforces (raised more than half a billion)
- Have developed the “Connect System” which holds data from taxpayers and 3rd parties which can be analysed to show tax gaps.

Closing in on Tax Evasion

- Current Campaigns
 - Credit Card Sales
 - Second income
 - Let Properties
 - National Minimum Wage
- Disclosure – Worldwide Disclosure Facility
- Review of interest and penalties regime
- Consider insurance for cost of investigation

‘So what does this all mean?’

Practical Financial Planning

Patrick Varley



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Agenda

Review of Savings & Investments

Planning for Retirement

Succession Planning

Summary



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Savings and Investments

1. Change to the Dividend Allowance from £5,000 to £2,000
2. National Savings & Investment Savings Bond
 - Available from April 2017 for the over 16s
 - 2.2% over 3 years
3. Individual Savings Allowance (ISA) 2017/18
 - £20,000 Adult ISA allowance
 - £4,128 Junior ISA allowance
 - Lifetime ISA ...
4. Tax free savings allowance for basic and higher rate tax payers - £1000 and £500 respectively



Planning for Retirement - PENSIONS

Lifetime Limit remains at £1,000,000

Annual Allowance remains at £40,000

But restrictions:

- Annual Allowance tapered from £40,000 down to £10,000 for high earners with adjusted income between £150,000 and £210,000
- £4,000 for those who have already accessed benefits (Money Purchase Annual Allowance)



Reviewing Your Pensions

1. Death Benefits (pre & post 75 years)
2. Flexibility (when and how to take benefits)
3. Investment Strategy (Do you have a strategy?)
4. Is your pension **FIT FOR THE FUTURE?**
5. State Pension Projection



Succession Planning Update on Inheritance Tax

Individual Nil Rate Band = £325,000

Main Residence Nil Rate Band

- £100,000 from April 2017
- Rising by £25,000 per year until 2021
- Maximum of £1,000,000 per couple IHT free from 2012
- Not everyone qualifies.....

Beware the cost of Probate increases from May 2017



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Reducing your IHT bill

1. Spend it!
2. Gifting (outright and also exempt gifts)
3. Gifts out of income excess to needs
4. Investments into Business Property Relief qualifying plans (2 years). Also Inheritance ISAs
5. Pay IHT by Life Assurance written under trust



Summary

- Streets are able to offer a `team approach` to tax and financial planning. New PROBATE SERVICE
- March 2017 Budget has been relatively quiet but still provides opportunities for planning
- A proposed Green paper on Social Care later this year (watch this space)
- Business as Usual – IT'S GOOD TO TALK



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