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November 2017 Budget – Companies and Small Businesses

Corporation Tax Rates

Corporation Tax rate reduced from 20% to 19% from April 2017 there is a further cut to 17% from April 2020.

Planning point:
When tax rates fall, this will reduce the tax benefit of expenditure. Therefore you will gain an absolute tax advantage by spending money on discretionary items such as assets qualifying for Annual Investment Allowance, staff bonuses, etc. before the rate reduces. You need to balance this with the cashflow disadvantage of paying money out earlier.

Research and Development Tax Credits

It was announced that for expenditure incurred on or after 1 January 2018, companies operating the Research and Development Expenditure Credit (RDEC), also known as the “Above The Line Credit”, will benefit from an increase in the rate of this credit from 11% to 12%. This will increase the value of R&D claims for companies that are unable to use the more generous SME scheme either due to their size, or due to receipt of certain grant funding, etc.

Planning point:
Many companies fail to claim R&D tax credits to which they are entitled. If your company incurs costs in overcoming technical uncertainties, then you may have a valuable claim to make.

“Cashtrak took over a complicated, costly accounting procedure and simplified everything for us with their expertise. We have saved a vast amount of money with online, timely submissions and streamlined technology.”

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National Insurance for Employees and Employers

The earnings threshold for both employees and employers will increase from its current level of £157 per week to £162 per week from April 2018. The Upper Earnings Limit will rise from £866 to £892 per week.

A reminder to all employers that the Employment Allowance, which provides exemption to businesses from paying Employer's NIC, rose to £3,000 from April 2016. It is available to all employers, although groups of companies and companies under common control only get one allowance. This is designed to remove the Employer's NIC cost of employing four full time employees on the National Living Wage (see later) and exempts the first £3,000 of Employer's NIC which would otherwise be payable.

A reminder that where a sole director is the sole employee in respect of whom Employer's NIC is payable, the Employment Allowance ceased to be available from April 2016.

Planning point:
This is designed to counteract a complex NI avoidance scheme. If you are a genuine "one man" company, it appears that appointing a family member as say Company Secretary and paying £1 of Employer's NIC in respect of them may avoid the removal of the Employment Allowance.

Also, a reminder that with effect from 6 April 2015, there is no Employer's NIC payable in respect of employees under 21 who earn up to the Upper Earnings Limit (£45,032 in 2017/18). This means that (using 2017/18 rates and allowances), cost savings of £530 on a salary of £12,000, £943 on a salary of £15,000 and £1,634 on a salary of £20,000 will be made for each year that such an employee qualifies.

As announced in the 2014 Autumn Statement, the Employer's NIC exemption is extended to apprentices aged under 25 with effect from April 2016.

Planning point:
If you are not the sole employee/director of your own company (or as outlined above, could include a second employee going forwards) and currently pay yourself below the NIC threshold, you may wish to consider increasing your salary to utilise your personal allowance in full. This will result in a net gain, since corporation tax relief at 20% will exceed the employee NIC suffered at 12% and the 13.8% employer NIC will not be due. If you already pay more than £3,000 employers NIC for other employees, you will not benefit from this option.

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National Minimum Wage/National Living Wage

There will be a rise in the National Living Wage from £7.50 to £7.83 per hour for over 25s from April 2018. There are also to be increases in the National Minimum Wage from 1 April 2018 to £7.38 per hour for 21-25 year olds (from £7.05), £5.90 per hour for 18-20 year olds (from £5.60), £4.20 per hour for 16-17 year olds (from £4.05) and an increase in the apprentice rate from £3.50 to £3.70 per hour. A reminder that this and future increases apply from April each year.

Auto-enrolment Contribution Increases

A reminder that the minimum contributions under auto-enrolment are due to increase in April 2018 (2% employer, 5% total) and April 2019 (3% employer, 8% total) from their current levels of 1% employer contribution, 2% total contribution.

Planning point:
If you have a significant number of employees contributing to a scheme, you may wish to consider making the contributions on their behalf via a salary sacrifice scheme in order to save both the employee and employer NIC on these amounts. From April 2018, an employer with 10 employees earning the UK average earnings of £26,468 (per the ONS), utilising a salary sacrifice scheme would save approximately £850 p.a. Employer's NIC, and save each employee around £75 employee NIC.

Changes to National Insurance Contributions for the Self-employed

There have been changes made to the controversial announcements from the 2016 Budget. The flat rate £2.80 per week Class 2 NIC contribution for the self-employed (including partners in partnerships) will be abolished from April 2019 (was 2018). The increase of 1% from 9% to 10% from April 2018 and from 10% to 11% from April 2019 which were announced will now not proceed.

Planning point:
For self-employed people, the payment of Class 2 NIC is the trigger for the entitlement to contributory benefits such as state pension. Legislation will be amended so that payment of Class 4 NIC on your annual profits will give this entitlement. However, if you have a year when you make a loss, or profits under the Class 4 threshold (possibly due to investing in new plant and machinery and claiming Annual Investment Allowance), this may leave a gap in your contribution record. In these circumstances, you may wish to consider paying Class 3 (voluntary) contributions from 2019, depending on your contribution history.

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Capital Allowances on Cars

A reminder that the 100% First Year Allowance on low emission cars (less than 75g/km of CO2) will be extended for a further three years to 31 March 2021, although the threshold will reduce to 50g/km of CO2 from 1 April 2018.

Furthermore, the limit of CO2 emissions at which a car is put in the special rate pool attracting 8% capital allowance rather than 18% in the main pool will reduce from 130g/km to 110g/km from 1 April 2018.

Planning point:
You can check the CO2 emissions of your car here with the registration number and manufacturer: www.vehicleenquiry.service.gov.uk. Otherwise you can use websites such as www.comcar.co.uk to check CO2 of cars you are thinking of buying. The decision as to whether you have a company car or own a car personally and reclaim mileage involves a number of factors and we would recommend you speak to your usual advisor regarding this.

Cash Accounting Limits

From 6 April 2017, unincorporated businesses with turnover of up to £150,000 will be able to report their taxable profit on a cash basis. Previously this limit was £83,000. Once you are in the scheme, you will not be forced to leave until your turnover reaches £300,000. See https://www.gov.uk/simpler-income-tax-cash-basis/overview for more details.

Making Tax Digital (MTD)

It was confirmed that MTD will be introduced from April 2019 for VAT. This will apply to businesses over the VAT threshold, but not those registered voluntarily. Any further roll-out of MTD will be from April 2020.

Planning point:
You may need to fundamentally change how you keep your business records in order to comply with your responsibilities under MTD.

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Personal Tax

Income Tax Rates and Allowances

The current personal allowance of £11,500 is to rise to £11,850 from 6 April 2018. Furthermore, the basic rate band for 2018/19 is to be £34,500 (currently £32,000).

This, together with extensions to the basic rate band, means that the higher rate tax threshold (including the personal allowance and basic rate band) is to rise from £45,000 from April 2017 to £46,350 from April 2018. The higher rate threshold is still expected to be £50,000 by the end of this parliament. The NIC upper limit will continue to align with the higher rate threshold.

The additional rate of income tax remains at 45% for taxable income over £150,000 (barring dividends – see below).

Furthermore, the personal allowance will still begin eroding when income reaches £100,000, meaning people with incomes of £100,000-£123,700 (for 2018/19) will suffer an effective 60% tax rate within this bracket.

As previously announced, from 2015/16 married couples (and those in a civil partnership) will be able to transfer 10% of their personal allowances to each other, helping couples where one person does not fully use their own allowance. However, where one of the couple is a higher rate or additional rate taxpayer, this facility will not be available.

Planning point:
If you are married or in a civil partnership, it remains best practice to utilise both spouses' personal allowances and basic rate bands where possible, whether this be by paying income from your business to both spouses within legitimate boundaries, or by transferring investment assets between spouses.

Planning point:
If your income is at or near the higher rate, additional rate or £100,000 limit, there may be options for mitigating the impact of these tax rates depending on your personal circumstances.

Planning point:
If you currently take a minimal salary from your own company, then the increase in personal allowance needs to be considered in conjunction with NIC limits. From April 2018, we would suggest that a salary in the region £8,520 p.a. (£710pcm) could be considered optimum for these purposes. At this rate you will pay a small amount of NIC. To avoid NIC entirely, a salary of up to £8,424 p.a. may be taken. Please see the comments on Employment Allowance above – if you do not pay over £3,000 in Employers NIC already (and do not utilise your personal allowance on other income such as rental income), then you may benefit by paying up to the £11,850 personal allowance as a salary from April 2018. Please see the comment in the National Insurance section regarding Employment Allowance if a sole director is the only employee in respect of whom Employers NIC is payable.

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Reduction in Dividend Allowance

A fundamental change to the taxation of dividends took place with effect from April 2016. Since then, the 10% tax credit on dividends has been abolished, and the effective tax rate on dividend income was increased by 7.5% across all income levels (to 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers). From the same date, the introduction of the dividend allowance has effectively exempted the first £5,000 of dividend income per taxpayer per year from tax (although it still uses up basic rate/higher rate band). From 6 April 2018, this allowance is to be cut to £2,000.

Planning point:
Many people operating through limited companies will see significant tax rises on their income under the new system. It would be an opportune time to review whether shares should be held by spouses or other family members in order to utilise all available allowances and basic rate tax bands as fully as possible.

Changes to Savings Taxation

A reminder that a "Personal Savings Allowance" has been in place since April 2016. Under this scheme, interest income of £1,000 for basic rate taxpayers, or £500 for higher rate taxpayers, will be exempt from tax. Additional rate taxpayers (with income over £150,000) will not benefit from this exemption. Automatic deduction of tax at source by banks will cease.

Planning point:
For many people, this allowance may make a cash ISA irrelevant. With current low interest rates, funds of around £65,000, or £32,500 for a higher rate taxpayer, would be needed to exceed this limit. However, if rates rise, then at say 5% interest, this would drop to £20,000 or £10,000 for a higher rate taxpayer. Furthermore, it is arguably more likely that this exemption could be reversed in the future than the whole ISA regime, so you should take a balanced view before dispensing with the ISA.

Planning point:
Many small business owners may not have significant personal savings outside of an ISA to utilise this allowance, but may be owed a significant amount by their trading company. If, for example, your company owed you £25,000, you may decide to charge the company say 4% annual interest from April 2016. As long as you are charging no more than a market rate of interest, then the company should obtain a tax deduction for the £1,000 interest paid in this example, and as a basic rate taxpayer, no income tax is payable by you personally. For a higher rate taxpayer, it would likely be preferable to reduce the rate charged to generate interest within the £500 reduced allowance for a higher rate taxpayer.

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Car Benefit in Kind

It was announced that from April 2018, the surcharge in calculating a benefit in kind for a diesel car will rise from 3% to 4% with the maximum percentage to be used remaining at 37% of the list price of the car. This does not apply to cars meeting the RDE2 standard, but it is unclear currently whether any available cars actually meet this standard. Therefore, this looks to be a tax rise for all drivers of diesel company cars (but not vans).

Planning point:
For many business owners, having a company car, and in particular private fuel provided for a company car, may not be a tax efficient solution.

Pension Changes

Remember that from April 2016, there is a reduction in the Annual Allowance (the amount which you or your employer can contribute to a pension scheme) where Adjusted Income (which includes employer pension contributions) exceeds £150,000.

Affected individuals will find their allowance reduced by £1 for every £2 of income over this threshold, down to a minimum of £10,000. This effectively is a sliding scale from £150,000 to £210,000.

Please see the factsheet available from the News section of our website for full details and examples.

Planning point:
If you are caught by the new rules, you may wish to consider increasing your contributions, or your company contributions, in the current tax year. You may have unused relief brought forward from a previous tax year.

For people who have drawn pension benefits, the money purchase annual allowance reduced from £10,000 to £4,000 from April 2017. This means that once you have drawn certain pension benefits, you can only contribute a further £4,000 per year into a pension scheme. You should also be wary of pension lump sum recycling rules if you have already taken a lump sum and continue to contribute to a pension scheme.

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Changes to Taxation of Rental Income

As announced in the 2015 Summer Budget, tax relief on interest payments will be restricted to the basic rate from 2020/21. This will be phased in equally over 4 tax years starting with 2017/18. This will not apply to commercial property, only residential “buy to let” properties. This restriction is applied by making the interest paid non-deductible, so you pay tax on rental profits before interest is deducted. The tax is then reduced by 20% of the interest paid. Even if you are currently a basic rate taxpayer, the mechanics of this restriction can actually push you into the higher rate of tax.

Planning point:
Where your long-term plan is to build a portfolio of residential property, consider whether you should do this through a limited company. It is sometimes possible to move existing portfolios into a company tax efficiently with the correct planning.

Other Announcements

SDLT Exemption for First Time Buyers

A welcome announcement for many young people was the announcement that first time buyers will not have to pay Stamp Duty Land Tax on the first £300k of properties costing up to £500k. As always, the devil may be in the detail in relation to who does, or does not, qualify as a first-time buyer.

VAT Threshold Increases

The usual increase in VAT thresholds were put on hold and the registration threshold remain at £85,000 for the next two years and the de-registration threshold will remain at £83,000. A full review of the VAT system was announced.

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