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## Business Focus

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## Investors' Relief: could you benefit from a 10% CGT rate?

Many people are aware of the capital gains tax (CGT) savings offered by Entrepreneurs' Relief, but did you know that Investors' Relief also allows individuals to enjoy a lower rate of CGT?

### What is Investors' Relief?

Introduced in April 2016, Investors' Relief (IR) is designed to attract new share capital into unlisted companies. IR was billed as an extension to Entrepreneurs' Relief (ER), and the reliefs are similar in providing a 10% CGT rate (rather than a 20% tax rate for higher rate taxpayers) for shareholdings in trading companies. Both reliefs also have the same upper limit, with individuals' qualifying gains for both reliefs subject to a lifetime cap of £10 million.

To qualify for the 10% CGT rate under IR, the shares must:

- be newly issued and subscribed for by the individual, for new consideration
- be in an unlisted trading company, or an unlisted holding company of a trading group
- have been issued by the company on or after 17 March 2016 and have been held for a period of three years from 6 April 2016
- have been held continuously for a period of three years before disposal.

However, while there are similarities between IR and ER, the potential beneficiaries of the two reliefs are different. ER is aimed at shareholders who own at least 5% of the ordinary share capital of the company and who are also officers or employees in that company, whereas IR is designed for non-working investors.

### Who will benefit from IR?

Investors and companies seeking additional capital as an alternative to the Enterprise Investment

Scheme (EIS) and the Seed Enterprise Investment Scheme (SEIS) may want to consider IR as part of their overall investment strategy.

At first sight, the EIS and SEIS look better from the point of view of the investor. These reliefs give income tax relief on the amount invested and a complete tax exemption from capital gains. Conversely, IR gives no income tax relief and a 10% CGT rate. However, IR may be far more attractive to companies seeking investment. The EIS and SEIS are subject to many conditions, including restrictions on the types of trades which qualify, the size of the company, how much can be raised and how and when the monies are invested.

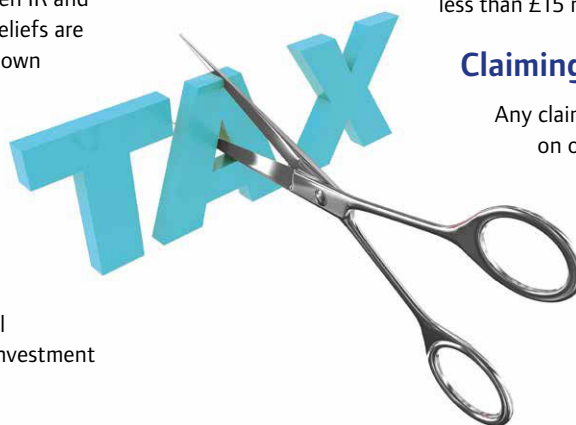
Scenarios in which IR may be attractive to the company raising funds and the investor include:

- asset backed trades which are excluded from the EIS and SEIS, such as hotels, property development and farming
- larger companies on the Alternative Investment Market (AIM). These companies are not regarded as 'listed' and so potentially qualify. Some of these companies could qualify for the EIS but the EIS is restricted to companies with gross assets of less than £15 million before a further share issue.

### Claiming the relief

Any claim for IR must be made by the individual on or before the first anniversary of 31 January following the tax year in which the disposal is made.

**For more information on Investors' Relief, or for advice on any other reliefs that may be available to you, please contact us.**





## 2017 Spring Budget highlights

Chancellor Philip Hammond presented his first – and last – Spring Budget on 8 March 2017, unveiling a number of significant measures for businesses and individuals. Here we provide an overview of some of the announcements, together with some other recent changes.

### Business rates support package

Following the recent business rates revaluation in England, the government will provide further support for businesses facing significant increases in bills. This includes support for those firms losing Small Business Rate Relief, to limit rates increases to the greater of £600 or the real terms transitional relief cap for small businesses. A £300m 'hardship fund' will also be available to local authorities in England to provide support for individual cases.

In addition, a £1,000 business rates discount will apply to public houses with a rateable value of up to £100,000, subject to state aid limits for businesses with multiple properties, effective for one year from 1 April 2017.

### Income tax measures

For 2017/18 the personal allowance has increased to £11,500 and the basic rate limit to £33,500 as planned. However, for 2017/18 the Scottish government has exercised its new income tax setting powers and the basic rate band for Scottish taxpayers has been set at £31,500.

The government is planning to reduce the tax-free dividend allowance from £5,000 to £2,000 from 6 April 2018.

### National insurance contributions

Class 2 national insurance contributions (NICs) will be abolished from April 2018, as previously planned.

The Chancellor also unveiled plans to increase the main rate of Class 4 NICs for the self-employed from 9% to 10% with effect from 6 April 2018, and from 10% to 11% from 6 April 2019. However, following considerable controversy over the announcement, the Chancellor subsequently confirmed that the government will not proceed with the increases.

### Research and development (R&D)

The Chancellor announced that administrative changes will be made to R&D tax credits, with the stated aim of increasing the certainty and simplicity around claims, and the government will be taking action to improve awareness of R&D tax credits among SMEs.

### Cash basis accounting

The entry and exit thresholds for cash basis accounting increased to £150,000 and £300,000, respectively, with effect from 6 April 2017. The government will also simplify the rules on capital and revenue expenditure within the cash basis, to make it easier for businesses to work out whether the expenditure is deductible for tax.

### Vehicle Excise Duty (VED) rates

A new VED system now applies to the taxation of most passenger vehicles registered on or after 1 April 2017.

For the first year this is based on CO<sub>2</sub> emissions. For following years, all vehicles with zero emissions will be exempt from the standard rate of vehicle tax, and all

other petrol or diesel vehicles will pay a standard rate of £140 a year.

An additional rate will be added for all new vehicles with a list price of over £40,000 (including zero emission vehicles). Alternative fuel vehicles continue to receive a £10 reduction on the standard and first year rates.

### New NS&I Investment Bond

The Chancellor confirmed the rate of the new NS&I Investment Bond, which was announced at Autumn Statement 2016. The Investment Guaranteed Growth Bond offers a rate of 2.2% over a term of three years and is available for 12 months from April 2017. The Bond is open to everyone aged 16 and over, subject to a minimum investment of £100 and a maximum investment limit of £3,000.

### New Budget timetable

The Chancellor also unveiled plans to introduce a new timetable for future Budgets, which will see the main annual Budget taking place in the Autumn, to be followed by a Spring Statement. From 2018, the Office for Budget Responsibility will produce a Spring forecast, and the Chancellor will make his Statement responding to that forecast.

Please note that the information in this article was correct at the time of printing and does not take into account any changes following the General Election in June 2017.

**For more information on the Budget announcements and how they could affect you and your business, please contact us.**

# Making Tax Digital: an update

The government is set to phase in its landmark digital tax initiative, Making Tax Digital, between 2018 and 2020.

Making Tax Digital for Business (MTDfB) is a key part of the new government initiative. From April 2018 many unincorporated businesses and landlords will be required to register, file, pay and update their financial information using a secure online tax account at least quarterly. Following consultation, the government has now made a number of key decisions.

## Provision of MTDfB software

Free software will be provided to businesses with the 'most straightforward' tax affairs. Firms will be required to use appropriate software for the needs of the business.

Businesses will also be permitted to use spreadsheets for their record-keeping but these must meet the relevant requirements of the MTDfB scheme. The requirement to keep digital records does not mean that firms will have to make and store receipts and invoices online.

## Changes to cash basis accounting

The cash basis entry threshold for unincorporated businesses has increased to £150,000. The exit threshold has risen to £300,000 – double the revised entry threshold.

HMRC is set to introduce a cash basis for unincorporated property businesses, which will serve as the default accounting method. However, there will be a choice to opt out and make use of an accruals basis. A maximum entry limit will be introduced, which is set at £150,000.

## Deadlines

Two of the key tasks required of businesses are to report summary information to HMRC quarterly and include an 'End of Year' statement.

Most will be required to use software or apps to keep digital business

records and make updates to HMRC at least quarterly in respect of their income tax, VAT and NICs online. When an update is due, taxpayers will have a period of one month to compile and submit their financial records. Businesses will be required to conclude their end of year activity and send their information to HMRC by either 31 January or 10 months after the last day of the period of account (whichever is soonest).

## Exemptions and deferrals

An exemption from MTDfB for businesses and landlords with income below £10,000 had previously been announced. Charities (but not their trading subsidiaries) will also be exempted from the need to keep records digitally.

The government also outlined that, for partnerships with a turnover above £10 million, MTDfB will be deferred until 2020.

Further changes were unveiled in the 2017 Spring Budget, including a one year deferral from the mandating of MTDfB for unincorporated businesses and landlords with turnovers below the VAT registration threshold (£85,000 from 1 April 2017). They will now be required to start using the new digital service from April 2019.

## Penalties and fines

Taxpayers will be given at least 12 months to familiarise themselves with the changes before any late submission penalties are applied.

Please note that following Theresa May's decision to call a snap General Election on 8 June, the government removed legislation to implement MTD from the Finance Bill 2017. The clauses are likely to be reinstated after the election.

**As your accountants, we will be keeping you up-to-date with the latest MTD developments.**

# Good news for micro-entrepreneurs

**Two new tax allowances are expected to benefit individuals who receive small amounts of income from selling goods or services, or from property.**

The new annual tax allowances – a £1,000 trading allowance and a £1,000 property allowance – are designed to provide simplicity and certainty regarding the income tax obligations of such individuals.

Under the plans, those with property or trading income below the level of the allowance (before expenses) will no longer need to pay tax on that income or declare it to HMRC. Individuals with relevant income above the £1,000 allowance will have the choice, when calculating their taxable profits, of deducting the allowance from their receipts, instead of deducting the actual allowable expenses.

The elections for the trading or property allowance will be made independently of each other and apply for each particular tax year.

The new allowances will apply to all types of property and trading income of an individual. The trading allowance also applies to certain miscellaneous income from providing assets or services, meaning that in some cases it will no longer be necessary to decide if the activity amounts to a trade.

The allowances will not apply to partnership income from carrying on a trade, profession or property business in partnership. The property allowance will not apply to income on which rent-a-room relief is received.

Anti-avoidance legislation will prevent the allowances from applying to income of a participator in a connected close company or to any income of a partner from their partnership.

## Who will benefit?

The trading allowance is most likely to benefit individuals or 'micro-entrepreneurs' who receive small amounts of income from providing goods or services. Previously, these individuals would have been required to include details of this income on their tax return and, if applicable, pay any tax due.

Meanwhile, the new property allowance is likely to be welcomed by those who, for example, receive income from renting out their garage or a parking space.

The measures were originally due to take effect from 6 April 2017, but have currently been postponed and are expected to be reinstated after the General Election.

**For more information or for further advice on minimising your tax liability, please do get in touch.**





## Tax Round-up

### New Tax-Free Childcare scheme introduced

The government's new Tax-Free Childcare scheme is currently being rolled out, starting with parents of the youngest children.

The scheme, which is intended to help parents with the cost of childcare, is worth a maximum of £2,000 per child (£4,000 for a disabled child). Tax relief of up to 20% is available for childcare costs, up to a total of £10,000. Children aged under 12 are eligible for the scheme, as well as disabled children aged up to 17.

Eligible parents are required to open an online account, into which they can contribute money towards the cost of childcare. The government will then 'top up' these payments at a rate of 20p for every 80p contributed by parents or family members.

To qualify for Tax-Free Childcare, all parents in a household must meet a minimum income level based on working 16 hours per week at the National Living Wage and earn no more than £100,000 each per year. Parents should not already be receiving support through Tax Credits or Universal Credit.

Unlike the current Employer-Supported Childcare scheme, self-employed parents will be able to benefit from Tax-Free Childcare. To support newly self-employed parents, the government is introducing a 'start-up' period, during which time a newly self-employed parent will not have to earn the minimum income level.

All eligible parents will be able to apply for Tax-Free Childcare by the end of 2017.

The existing Employer-Supported Childcare scheme will remain open to new entrants until April 2018. Those who already benefit from this scheme can choose to remain in this system, assuming their employer continues to offer it, or they can switch to Tax-Free Childcare.

### Insurance Premium Tax on the rise

As announced in the 2016 Autumn Statement and confirmed in the 2017 Spring Budget, the standard rate of Insurance Premium Tax (IPT) is set to rise from 10% to 12% with effect from 1 June 2017.

The latest increase means that the rate of IPT will have doubled in just over 18 months. IPT rose from 6% to 9.5% in November 2015, and then again by a further 0.5% to reach 10% in October 2016.

The Association of British Insurers (ABI) previously warned that many insurers may pass on the additional tax burden to their customers in the form of higher premiums, rather than bear the extra cost themselves.

It calculated that the rises in both 2015 and 2016 could have added more than £100 to the annual insurance costs of a typical family.

## Tax Tip

### Grandparents: don't miss out on national insurance credits

A parent who gives up work is provided with national insurance credits while their children are aged under 12. Under the Specified Adult Childcare credits scheme, if a parent works, the credits can instead be claimed by relatives under State Pension age who care for the child in question.

A grandparent or other relative who takes part in the scheme for a full year is able to claim an extra 1/35th of the state pension – worth up to £231 a year. Furthermore, individuals who have missed out on the scheme can make backdated claims to 2011.



## Reminders for your Summer diary

### June 2017

- 1 New Advisory Fuel Rates (AFR) for company car users apply from today.
- 19 PAYE, Student loan and CIS deductions are due for the month to 5 June 2017.
- 30 End of CT61 quarterly period.

### July 2017

- 5 Deadline for reaching a PAYE Settlement Agreement for 2016/17.
- 6 Deadline for forms P11D and P11D(b)

for 2016/17 to be submitted to HMRC and copies to be issued to employees concerned.

Deadline for employment related securities returns for 2016/17.

- 14 Due date for income tax for the CT61 period to 30 June 2017.

- 19 Class 1A NICs due for 2016/17.
- PAYE, Student loan and CIS deductions are due for the month to 5 July 2017.

PAYE quarterly payments are due for small employers for the pay periods 6 April 2017 to 5 July 2017.

- 31 Second payment on account 2016/17 due.

### August 2017

- 2 Deadline for submitting P46 (car) for employees whose car/fuel benefits changed during the quarter to 5 July 2017.
- 19 PAYE, Student loan and CIS deductions are due for the month to 5 August 2017.