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Business Focus

Summer 2016
inside this issue...

Employers' national insurance: could you save tax?

National insurance contributions (NICs) can represent a significant cost for many businesses, but recent changes to the regime may present opportunities for employers to reduce their NIC liability in some cases.

Claim the Employment Allowance

Most businesses, charities and Community Amateur Sports Clubs can now reduce their employers' Class 1 NIC liability through the Employment Allowance. Originally set at £2,000, the allowance was increased to £3,000 from April 2016 in a bid to help businesses with the increased costs associated with the introduction of the National Living Wage.

The Employment Allowance can be claimed via payroll software or HMRC's Basic PAYE Tools. It is an ongoing allowance, so once an employer has made a claim it will automatically apply to future years until HMRC is informed otherwise. Do contact us if you believe you are entitled to the allowance as it is possible to claim up to four years after the end of the tax year in which the allowance applies.

Please note that from April 2016 companies where the director is the sole employee are no longer able to claim this allowance.

Employ an apprentice

April 2016 saw a 'zero rate' introduced for 'relevant' apprentices on weekly earnings up to the Upper Secondary Threshold (UST), which is set at £827 in 2016/17. This effectively means that employers are no longer required to pay Class 1 secondary (employer) NICs on earnings paid to qualifying apprentices. To qualify for this exemption the apprentice must be aged under 25 and taking part in a government-recognised apprenticeship within the UK.

Consider younger workers

Businesses looking to take on additional staff might want to consider employing younger workers. Since April 2015, employer NICs for those under the age of 21 are reduced from the normal rate of 13.8% to 0%. The exemption applies to earnings up to the UST (£827 per week) for those employees. Earnings above this limit are subject to 13.8% employer NICs. For the 0% rate to apply, an employee will need to be under 21 when the earnings are paid. The employee will still be liable to pay employee NICs.

Consider dividends

Historically, it has been favourable for a director-shareholder to take dividends rather than a salary. This is because a dividend is paid free of NICs, whilst a salary or bonus can carry up to 25.8% in combined employer and employee contributions. April 2016 saw significant changes to the taxation of dividends, and although the amount of tax saved is likely to be reduced under the new system, there may still be a tax benefit for a director-shareholder in taking a dividend over a salary. However, the decision on whether to pay a dividend is complex and it is important to consider the wider implications, such as the availability of profits in the company to pay a dividend.

Salary sacrifice and non-cash benefits

Combining benefits with a properly arranged salary sacrifice can result in considerable savings for both employer and employee. A salary sacrifice arrangement, whereby an employee gives up the right to receive part of their cash pay in return for some form of non-cash benefit, could result in a lower tax and NICs bill for both the employer and employee as the non-cash benefits may be wholly or partially exempt from tax and NICs.

Such benefits-in-kind may include the provision of childcare or pension contributions. A salary sacrifice scheme needs careful planning to implement – please get in touch if you wish to consider such an arrangement.

For more information on national insurance planning, please contact us.

2016 Budget: some key tax measures

The 2016 Budget contained a number of measures affecting businesses and individuals. Here we look at some of the key tax changes from the Chancellor's latest Statement.

Business measures

Business rates

Following the business rates review, the Government has announced that from 1 April 2017 it will permanently double Small Business Rate Relief in England from 50% to 100%. It will also increase the thresholds so that business properties with a rateable value of £12,000 and below will receive 100% relief, while business properties with a rateable value between £12,000 and £15,000 will receive tapered relief.

Corporation tax

The Chancellor announced that corporation tax will be reduced by an additional 1% from 2020. As a result, the corporation tax rate will fall from its current rate of 20% to 19% for the financial years beginning 1 April 2017, 1 April 2018 and 1 April 2019, and 17% for the financial year beginning 1 April 2020.

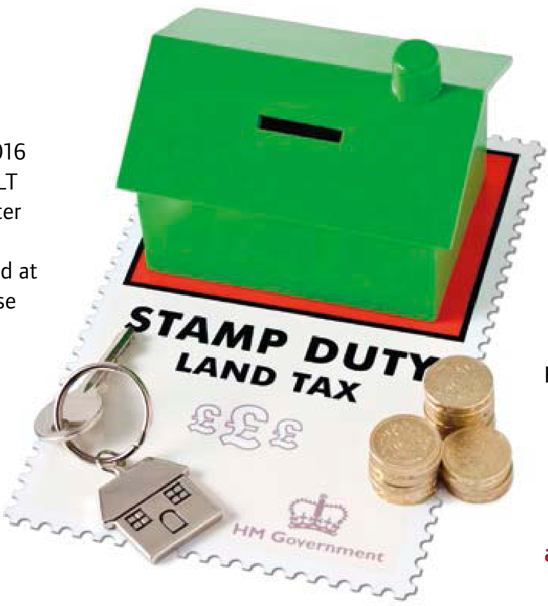
Micro-entrepreneurs

Two new £1,000 allowances are to be introduced for property and trading income, with effect from April 2017. Individuals with property income or trading income below the level of the allowance will no longer need to declare or pay tax on that income.

Those with relevant incomes above £1,000 can benefit by simply deducting the allowance instead of calculating their exact expenses.

Stamp Duty Land Tax (SDLT) for non-residential property

Following on from recent changes to SDLT and residential properties, the 2016 Budget outlined further reforms to SDLT and non-residential property. On or after 17 March 2016, SDLT on purchases of non-residential property will be charged at each rate on the portion of the purchase price which falls within each rate band. The new rates are now: 0% for the portion of the transaction value between £0 and £150,000; 2% between £150,001 and £250,000; and 5% above £250,000.



For leasehold rent transactions, SDLT is already charged at each rate on the portion of the net present value (NPV) of the rent which falls within each band. However, on and after 17 March 2016 a new 2% rate for rent paid under a non-residential lease has been introduced where the NPV of the rent is above £5 million. The new rates and thresholds for leasehold rent transactions are: 0% for the portion between £0 and £150,000; 1% between £150,001 and £5,000,000; and 2% above £5,000,000.

Please note that these measures do not apply in Scotland, where the Land and Buildings Transaction Tax has effect.

Personal measures

Personal allowances

The Chancellor announced that the income tax personal allowance will rise to £11,500 from April 2017, at which time the threshold for higher rate tax will also rise to £45,000 for those entitled to the full personal allowance**.**

ISAs

From 6 April 2017 any adult under 40 will be able to open a Lifetime ISA. They can save up to £4,000 each year and will receive a 25% bonus from the Government for every pound they put in, up to the age of 50. Funds can be used to save for a first home or for retirement.

The Chancellor also announced that, with effect from 6 April 2017, the ISA annual allowance is set to increase from £15,240 to £20,000.

Capital gains tax (CGT)

From 6 April 2016, the higher rate of CGT has been reduced from 28% to 20%, and the basic rate from 18% to 10%.

There is an 8% surcharge on these new rates for gains on residential property. Private Residence Relief will continue to ensure that an individual's main home is not subject to CGT.

Please contact us to discuss how the Budget announcements may affect you and your business.

Gift Aid - 25 years old and still counting

The Gift Aid scheme was first introduced in 1990 and saw £10 million in tax savings claimed by charities in its first year. In 2014/15, the savings were worth nearly £1.2 billion.

The tax savings arise because Gift Aid donations from individuals are deemed to be paid by those individuals net of basic rate income tax. The charity then claims the tax back from HMRC as it is exempt from tax on donations received (subject to the detailed rules for Gift Aid being satisfied).

Higher rate taxpayers can claim tax relief on their Gift Aid donations amounting to 25% of their donations. The tax relief for an additional rate taxpayer is 31.25%. Higher and additional rate relief is now worth nearly £500 million.

Recent changes

In April 2016 HMRC simplified and shortened the model Gift Aid declaration. (The declaration is the means by which the taxpayer agrees that the donation comes within the scheme and allows the tax reliefs to flow through to the charity and the taxpayer.) However, in doing so it has clarified that if an individual has not paid sufficient tax to cover the tax reclaimable by the charity on the donation, the individual is responsible for paying the difference to HMRC.

Action required by charities

The new style declarations should have been in use from the 6 April 2016. However:

- if an individual has signed an old style declaration form which covers multiple donations, there is no need for that individual to make a new declaration
- if a charity holds stocks of printed materials that were ordered and printed before 21 October 2015, that stock can continue to be used.

A declaration by a donor can alternatively be made verbally or online (eg via a website). Whichever format is utilised, charities need to ensure the updated format is used.

What should individuals be considering?

Due to various changes in the personal tax regime in recent years, there are many more individuals who will not be paying income tax in 2016/17. Quite a few of these have signed declaration forms which cover multiple donations. So, for example, if a non-taxpaying individual makes £80 of donations this tax year, the charity(ies) will claim £20 and the individual has a £20 liability to HMRC. Such individuals need to get in touch with the charities to cancel the Gift Aid declarations. Cancellation will not affect Gift Aid donations already made but any further donations will not qualify.

There are also many higher or additional rate taxpayers who have signed declarations but have not claimed the difference between the rate they pay and the basic rate on their donations. Individuals can do this either through a Self Assessment tax return or by asking HMRC to amend their tax code.

Please contact us for further assistance.

The new Personal Savings Allowance

The new Personal Savings Allowance (PSA), which came into effect on 6 April 2016, means the majority of individuals are now exempt from paying tax on their savings income. This article explores the new allowance in more detail.

How it works

A 0% rate, known as the 'savings nil rate', is applied to savings income within an individual's PSA. The amount of PSA an individual is entitled to will depend on his or her adjusted net income. The PSA allows basic rate taxpayers to earn up to £1,000 each year in tax-free savings income (such as interest), while higher rate taxpayers can receive up to £500 before paying tax on their savings income. However, additional rate taxpayers have a PSA of nil, meaning they do not benefit from this latest measure.

Following the introduction of the PSA, banks and building societies no longer automatically deduct tax from account interest they pay to customers. Therefore individuals who are unlikely to have tax to pay on their bank or building society interest are no longer required to register with their account provider to have this interest paid without deduction, rendering form R85 obsolete.

What counts as savings income?

Savings income refers to interest from bank and building society accounts, as well as accounts held with credit unions or National Savings & Investments. It also includes interest distributions (but not dividend distributions) from authorised unit trusts, open-ended investment companies and investment trusts. Income from government or company bonds and most types of purchased life annuity payments are also classed as savings income.

Income from an ISA, and income which qualifies for the 0% starting rate for savings (see later), will not use up any part of an individual's savings allowance.

Income that falls within an individual's PSA will still count towards their basic or higher rate limits. This may therefore affect the level of PSA they are entitled to, and the rate of tax that is due on any savings income they receive in excess of this allowance.

Interaction with the 0% starting rate limit

The PSA operates alongside the 0% starting limit for savings, which was introduced in April 2015. The 0% starting rate applies for savings income up to the starting rate limit of £5,000. The rate is not available if taxable non-savings income (broadly earnings, pensions, trading profits and property income) exceeds the starting rate limit.

The PSA legislation confirms that the starting rate will not use up any part of an individual's PSA. However, the starting rate for savings does use up part of the basic rate limit.

Savings income over the PSA

While the Government estimates that 95% of savers will no longer pay tax on their savings income, around 1.4 million people are still expected to have some tax to pay. In most cases, this will be additional rate taxpayers or individuals with higher than average savings.

Savings income exceeding the PSA is taxed at 20% (basic rate taxpayer), 40% (higher rate taxpayer) or 45% (additional rate taxpayer). Where there is tax to pay, HMRC has indicated that it will collect this tax through the PAYE system, on the basis of information supplied by account providers to HMRC.

We can advise on a range of strategies to help maximise your personal wealth.

Tax Round-Up

Spotlight on the new tax-free childcare scheme

The new tax-free childcare scheme is due to come into force in 2017, forming part of a Government plan to assist parents with childcare costs. Parents of the youngest children will be able to apply from early 2017.

Eligible parents must be in work, each earning roughly £115 per week, and less than £100,000 each per year. Children up to the age of 12 will qualify for the new tax-free scheme. Those children up to the age of 17 with disabilities will also be eligible.

All qualifying working families will be entitled to utilise the new scheme, including self-employed parents.

The initiative will allow parents to open up an online account in order to save for any potential childcare costs. Anyone may contribute to these accounts, not only the child's parents. Furthermore, for every 80p that is put into an account, the Government will deposit an additional 20p.

This figure is equivalent to the 20% rate of tax that many people pay.

End of RTI relaxation for micro-employers

Under the Real Time Information (RTI) regime, employers of all sizes must now submit information to HMRC regarding the payments and deductions made on behalf of their employees, at or before the time of payment.

RTI has been rolled out over a number of years, and a relaxation of the rules had, until recently, applied to existing micro-employers. It allowed those who employed nine or fewer employees and paid employees weekly or more frequently, but only processed their payroll monthly, to send payroll information to HMRC by the date of their regular payroll run, but no later than the end of the tax month. However, this relaxation ended on 5 April 2016.

Monthly penalties will apply for non-compliance with RTI payment and filing obligations. These can range from £100 to £400 depending on the number of staff employed.

Please contact us for further advice or assistance with your payroll.

Tax Tip

Could you reduce your inheritance tax liability?

It is possible to reduce your liability to inheritance tax (IHT) by utilising a programme of lifetime giving.

Most gifts made or given during your lifetime will be completely exempt from IHT if you live for seven years after you made the gift.

Gifts do not have to be in cash: you can gift any item that has a value (such as properties or possessions, for example). An estate doesn't have to pay IHT on any gifts given away as long as the value of the gifts does not surpass £3,000 during each tax year (running from 6 April to 5 April).

Please contact us for advice and support in reducing your IHT liability.

Reminders for your Summer Diary

June

1 New advisory fuel rates for users of company cars effective from today.

30 End of CT61 quarterly period.

Annual adjustment for VAT partial exemption calculations (March VAT year end).

July

6 Deadline for submission of Form 42 (transactions in shares and securities).

File Taxed Award Scheme Returns, file P11Ds and P11D(b)s. Issue copies of P11Ds to employees.

Deadline for entering into a PAYE Settlement Agreement for 2015/16.

14 Due date for income tax for the CT61 period to 30 June 2016.

19/22 Quarter 1 2016/17 PAYE remittance due.

Final date for payment of 2015/16 Class 1A NICs.

31 Second self assessment payment on account for 2015/16.

Annual adjustment for VAT partial exemption calculations (April VAT year end).

Deadline for tax credit Annual Declaration (if estimated, final figures required by 31/01/17).

August

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

31 Annual adjustment for VAT partial exemption calculations (May VAT year end).