

HOW THE SPRING BUDGET 2017 AFFECTS YOU AND YOUR BUSINESS

The first of two Budgets for 2017 took place Wednesday 8th March, 2017 and saw the Chancellor Exchequer, Phillip Hammond announce his first full Budget speech to the House of Commons.

The 'Last' Spring Budget delivered by Philip Hammond yesterday reiterated the government's desire to make the tax system fairer and they want to stop businesses simply setting up companies to reduce their tax liability.

The tax changes announced in this Budget were once again kept to a minimum with the Chancellor taking the opportunity to confirm a number of changes that were previously announced in the Autumn statement or earlier.

There are no new significant changes affecting small owner managed businesses but some are going to have a disproportionate effect on individuals on lower incomes/profits as a proportion of their income in comparison with higher earners.

This guide intends to provide you with a summary only of the announcements, made together with some analysis of the practical implications. No action should be taken as a result of reading this summary without checking with a member of our team first.

EXPERT VIEW



A BRIGHT FUTURE FROM SPREADSHEET PHIL!

From the man known to many as Spreadsheet Phil, this was a Budget to “prepare Britain for a brighter future” and to build “the foundations of a stronger, fairer, more global Britain”.

Compared to previous Spring Budgets, this was somewhat tame with only a handful of tax announcements. Perhaps this is a sign that the Chancellor will save more widespread changes for the new Autumn Budget expected later this year.

The headline grabbers were the increase to National Insurance for the self-employed and the reduction in the dividend allowance. Over recent years the Government have shouted about how they want Britain to be entrepreneurial and yet these changes introduce further burden on small businesses; owner managed companies and the self-employed will see a tax increase from April 2018. This will affect a fair few people as we’ve seen a huge rise in the numbers of self-employed workers over the past few years.

On a more positive note, after significant lobbying from various sources, it was good news that Mr Hammond has decided to delay the implementation of Making Tax Digital for small businesses and landlords under the VAT registration threshold. HMRC’s Making Tax Digital policy has largely been seen as placing an additional administrative burden on small businesses. The decision to delay the implementation for these small businesses is a welcome one as it will give them time to prepare and it will allow the Government to increase the publicity around Making Tax Digital. We will be working with our clients over the coming months to explain the implications and to help them prepare for Making Tax Digital.

DAVID EVANS - TAX PARTNER - SEDULO

HOW BUDGET 2017 AFFECTS THE INDIVIDUAL

PERSONAL ALLOWANCE & HIGHER RATE THRESHOLD

Mr Hammond confirmed that the personal allowance will increase to £11,500 and the higher rate threshold will increase to £45,000 from April 2017 as previously announced in the Autumn Statement with the intention of reaching £12,500 (personal allowance) and £50,000 (higher rate threshold) by 2020/21. A summary of the rate has been set out below:

TAX YEAR	PERSONAL ALLOWANCE (£)	HIGHER RATE THRESHOLD (£)
2016/17	11,000	43,000
2017/18	11,500	45,000
2018/19	11,800 (estimate)	46,500 (estimate)
2019/20	12,100 (estimate)	48,000 (estimate)
2020/21	12,500 (stated aim)	50,000 (stated aim)

DIVIDEND ALLOWANCE

The 0% dividend allowance rate will be reduced from £5,000 to £2,000 with effect from April 2018.

This will impact on SME business owners who extract profits from their companies via dividends and also individuals with dividend income in excess of £2,000 from investments.

We have reviewed the effect of this change for our typical husband and wife owner managed businesses trading through Limited companies at various profit rates and can advise that although there are some small increases in 2017/18, by the time we get to 2020/21 these have reversed and everyone is back at broadly the same levels as for the current year, 2016/17.

NIC's

The chancellor has confirmed that Class 2 NIC will be abolished as planned in April 2018.

However, we will now see an increase in Class 4 NIC for the Self-Employed with the main rates increasing to 10% from April 2018 and a further 1% increase from April 2019 to 11%.

Taking both measures together, actual increases in National insurance for the Self-Employed will only be felt at profit levels exceeding £16,250.

CASH BASIS

As part of the tax simplification process, with effect from April 2017, there is an increase to the cash basis threshold from £83,000 to £150,000 and the threshold for withdrawal of cash basis increases to £300,000.

EXPERT VIEW



There was little in the budget that affected financial planning and wealth management.

We already knew that the ISA allowance is set to increase to £20,000 per person from the 6th April 2017.

There had been industry noise against the proposed reduction in the Money Purchase Annual Allowance for Pensions (which applies to some people drawing pension benefits) from £10,000 to £4,000 but the Treasury have stuck to their proposals.

The announcement of the new National Savings Bond was slightly disappointing. With a three year term, maximum deposit of £3,000 and an interest rate of 2.2% it offers little that isn't already available on the high street.

The only significant rule change is the introduction of an additional tax on pension transfers to overseas pension schemes known as QROPS. A new tax charge of 25% has been introduced with immediate effect. Whilst this is a significant change to QROPS transfers, by its very nature, this only affects a very small number of people.

PAUL LINDFIELD - WEALTH MANAGEMENT PARTNER - SEDULO

HOW BUDGET 2017 AFFECTS THE COMPANY

CORPORATION TAX LOSSES

As previously announced, the government will include changes in the Finance Bill 2017 for future corporation tax losses to be carried forward.

The changes will give companies greater flexibility on how the losses can be used, for losses arising on or after April 2017.

Earlier trading losses could only be relieved against future trading profits from the same trade. This change means that future trading losses carried forward can be relieved against total taxable profits chargeable to corporation tax.

Although this flexibility is not available for pre-April 2017 trading losses, companies will have the option to choose whether to use pre-April 2017 trading losses before other available losses.

APPROPRIATIONS TO TRADING STOCK

With effect from budget day (8 March 2017), where an individual or a company reallocates an asset to trading stock, it is no longer possible to make the relevant elections preventing perceived abuse relating to conversion of capital losses to a trading losses.

PATENT BOX

Further to consultation, the draft legislation has been amended to narrow the definition of a qualifying 'cost sharing arrangement' in situations where research & development is undertaken in a joint venture type scenario and costs are shared between the parties.

RESEARCH & DEVELOPMENT (R&D) TAX RELIEF

Following a review of the R&D tax regime announced in the Autumn Statement, Mr Hammond announced that the government will continue to ensure the competitiveness of the UK R&D tax credits system with some administrative changes although no specific details were announced.

Here at Sedulo we undertake reviews and process R&D claims on a daily basis and continue to have a 100% success rate. To date we have successfully claimed tax relief under these provisions exceeding £26.5 million generating welcome cash flow for our clients'. We are always happy to meet to consider any innovative projects being undertaken relating to the creation of new systems and products to provide an opinion as to the prospect of a successful claim for Qualifying R&D. We remain extremely competitive in terms of fees for this work so please do contact us if you feel that something you are doing may fall into these categories.

EXPERT VIEW



It sounded like a tough budget for small businesses and the self-employed.

There has been a lot of fuss, particularly in relation to the proposed increase in Class 4 National Insurance for the self-employed, however most concerns have ignored the saving from the abolition of Class 2 NICs.

When taken together the actual increase will not be a major issue, and we now have confirmation that no final decision will be taken on Class 4 NICs until August 2017.

Of course, many self-employed people work within the construction industry and will have been alarmed by the initial press announcements worrying about the prospect of a large drop in net income.

Funding in the construction industry is historically difficult. Thankfully, we have a number of creative options for funding construction businesses so our clients have access to unprecedented levels of working capital.

LEYTON JEFFS - DIRECTOR OF FUNDING SOLUTIONS - SEDULO

MAKING TAX DIGITAL

WHAT IS THIS ALL ABOUT?

We have all been awaiting more details on this change, following first mention in Budget 2015 and with the initial roadmap published in December 2015. It is fair to say that most professional bodies have stuck with the belief that the anticipated changes will be onerous on small businesses and create more work for advisers, which is contrary to the governments thoughts. We have been through a period of consultation throughout which many concerns and objections to the proposals were made, but the government and HMRC have not wavered and we do now have confirmation that businesses will be entering the world of digital record keeping whether they like it or not.

Some concessions were gained following the representations made during consultation, the main ones are an exclusion for micro businesses and landlords and a one-year postponement for business with annual turnover/income below the Vat registration threshold, currently £83,000.

We still await the final legislation which will be included in the 2017 Finance Bill.

Why do we need to switch to digital record keeping and what is the ultimate aim of the change?

HMRC believe that 80% of all errors in Self-Assessment are made by those who earn less than the Vat Registration Threshold and that by improving accuracy, HMRC would collect additional tax in the region of £20 million to £150 million per year. This is of course a very wide range and clearly suggests that HMRC believe that many businesses and Landlords are either under declaring income or over claiming expenses or a combination of the two.

WHO IS AFFECTED AND WHEN?

▶ UNINCORPORATED (I.E. NOT LIMITED COMPANIES)

Micro Businesses – Businesses and Landlords with turnover (income) less than £10,000pa are exempt from these changes.

Businesses and Landlords with turnover in excess, of the VAT threshold (£83,000) will be required to start using the new digital service from April 2018.

Businesses and Landlords with turnover under the VAT threshold will be required to start from April 2019. This includes people in employment who have a secondary income from either self-employment or property.

All businesses registered for VAT will also be required to start from April 2019.

▶ CORPORATE BODIES (LIMITED COMPANIES)

Limited companies will start from April 2020.

▶ *We will be issuing further guidance on how this will affect our clients and any necessary changes to record keeping once we have received and digested the detailed legislation and will contact all clients affected to advise and assist in*

OTHER ANNOUNCEMENTS

BUSINESS RATES

Many businesses have been anticipating an increase in business rates following the business rate revaluations which will take effect from April 2017. The chancellor announced some relief for those small businesses losing their rate relief by announcing that increases will be capped at £50 per month.

In addition, the government will also introduce a £1,000 business rate discount for pubs with a rateable value of up to £100,000 that is estimated to affect 90% of all pubs in England.

Any businesses with a property with a rateable value of £12,000 and below will receive 100% relief. The government claims that this measure will mean that 600,000 small businesses will pay no business rates at all.

Businesses with properties with a rateable value between £12,000 and £15,000 will receive tapered relief. It is claimed that a further 50,000 businesses will benefit from tapered relief.

LIVING WAGE

The government is continuing its pledge to support working families and the national living wage will be increased to £7.50 per hour from April 2017 onwards.

This will be a 30p increase (4%) for employees who are on the national living wage.

Other rate changes are as follows:

for 21 to 24 year olds	from £6.95 per hour to £7.05
for 18 to 20 year olds	from £5.55 per hour to £5.60
for 16 to 17 year olds	from £4.00 per hour to £4.05
for apprentices	from £3.40 per hour to £3.50

QUALIFYING RECOGNISED OVERSEAS PENSION SCHEME (QROPS)

To counter perceived abuse relating to use of offshore pensions, the government has announced that they will include provision in the Finance Bill 2017 taking effect from 9 March 2017 to introduce a 25% charge on transfers to QROPS with certain exemptions.

IMAGE RIGHTS

HMRC have announced that they will shortly be publishing guidelines for employers who pay image rights under a separate agreement to their employees. This is most likely to impact the sport and entertainment industries where payments of image rights are common. We await further detailed guidelines from HMRC.

OFF-PAYROLL WORKING IN THE PUBLIC SECTOR / IR35

It was announced in the Autumn Statement that there will not be a 5% tax-free expenses allowance on the basis that those working in the public sector will no longer have the administrative burden of deciding whether the rules apply.

However, after subsequent technical consultation, it has been agreed that where some expenses have been incurred, the public-sector body may take account of the worker's expenses when calculating the PAYE/NIC's deductions.

For people operating via Limited Companies working in the Public Sector, we recommend that you contact us with a view to reviewing your particular circumstances to form an opinion as to what if any extent you will be affected and whether or not there is any continuing benefit to working through a Limited Company.

We have reproduced our previous diagram setting out the changes in relation to responsibility for operation of PAYE/NIC's, to the right...

EXPERT VIEW



One of the concerns of businesses covered in the Budget centred on Business Rates with many owner managed businesses anticipating increases due to the property rates revaluations taking effect from April 2017.

The Chancellor has tried to address this for smaller businesses, consequently there are hardship funds in place for those worst hit and rate rises for business who will lose out on existing relief will be capped. Pubs will receive an additional discount on rates.

There are a number of adjustments affecting director / shareholders in relation to profit extraction. These are a mix of reductions and increases as stated earlier in this report, which will level out over the period to 2020/21. We will be advising on profit extraction throughout this period to minimise the effects as far as possible.

With businesses now seeing increased inflation, higher business rates, it puts a greater reliance on frequent and accurate accountant information for a business to plan for these changes and apply a proactive approach.

JAMES PRINGLE - SENIOR MANAGEMENT ACCOUNTANT - SEDULO

CURRENT SYSTEM

PUBLIC SECTOR
BODY

▲ Services ▼ Pay

WORKER COMPANY
RESPONSIBILITY

NEW SYSTEM

PUBLIC SECTOR BODY'S
RESPONSIBILITY

▲ Services ▼ Pay

WORKER
COMPANY

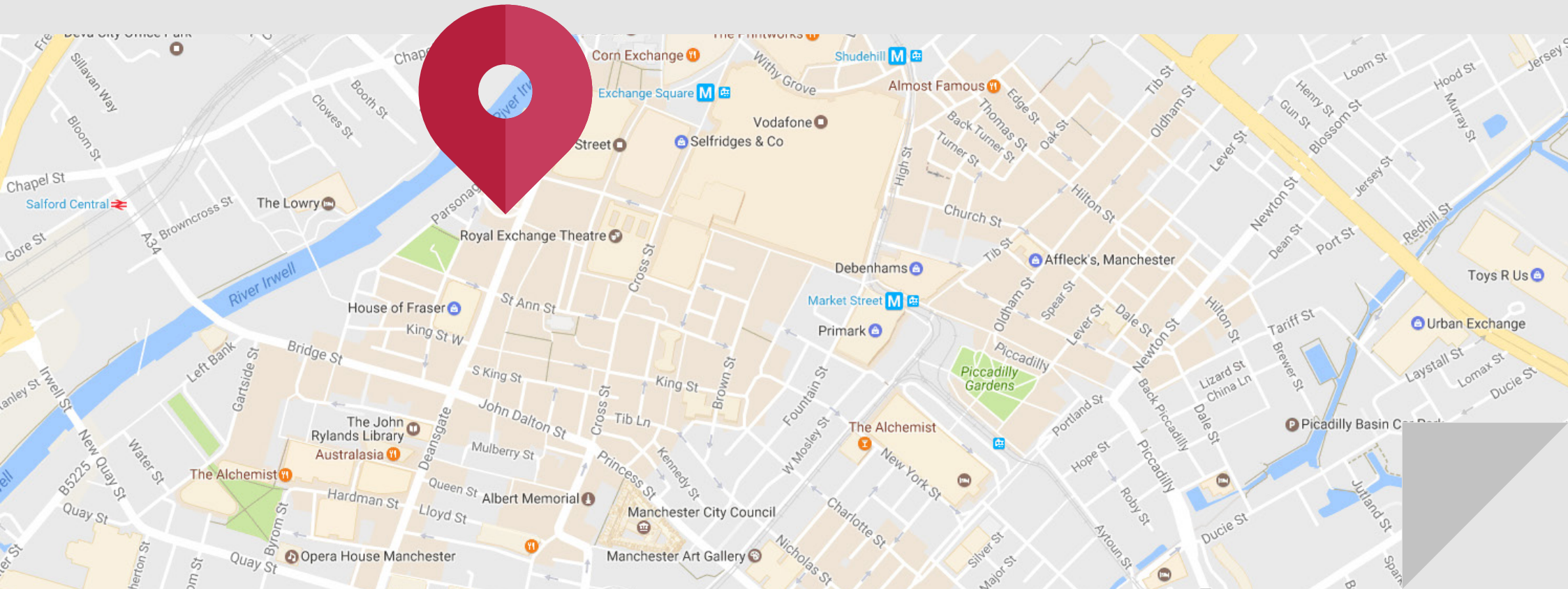
QUESTIONS?

Got a question about this Budget or need to speak to us? Get in touch about popping in for a coffee using any of the details below...

TEL
0161 236 9077

EMAIL
david.evans@sedulo.co.uk

ADDRESS
Sedulo, Regency Court, 62 - 66 Deansgate, Manchester, M3 2EN



This summary was produced by

SEDULO
Financial Consultants to Entrepreneurs

OFFICE | Regency Court, 62-66 Deansgate, Manchester, M3 2EN

TEL | 0161 236 9077

WEB | www.sedulo.co.uk

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