

AUTUMN UPDATE 2013

PUBLISHED BY NABARRO CHARTERED ACCOUNTANTS

PERSONAL MATTERS

Higher Tax Allowances confirmed

In his Autumn Statement, the Chancellor confirmed that the income tax personal allowance, which is £9,440 for the current tax year (2013/14), will rise to £10,000 for 2014/15. The saving for basic rate taxpayers will be (£560 × 20%) £112.

The higher rate threshold will also be increased, from £41,450 to £41,865, so that higher rate taxpayers will keep the full benefit of the increased personal allowance and enjoy a reduction of £83 in their higher rate liability.

From April 2015, the standard personal allowance will be increased each year in line with CPI inflation. However, the higher personal allowances for people born before 6 April 1948 or 6 April 1938 will remain frozen at £10,500 and £10,660 respectively, until they are overtaken by the index-linked standard allowance.

New tax relief for married couples

The Government has promised to introduce 'a transferable tax allowance for married couples'. However, this will not be available until the 2015/16 tax year.

Moreover, it will not be an additional allowance, but a facility for one spouse (or civil partner) to transfer up to £1,000 of his or her personal allowance to the other, provided neither spouse is a higher rate taxpayer. Accordingly, there will be no point in making a transfer unless the transferring spouse has insufficient income to use all of his or her personal allowance, and the recipient spouse is a basic rate taxpayer.

Capital gains tax 'main residence' exemption

Generally speaking, an individual's 'sole or main residence' is exempt from capital gains tax. If a house, *etc*, was the individual's 'sole or main residence' for only part of his or her period of ownership, then a time-apportionment calculation is made. However, under a rule dating back to the introduction of the tax nearly fifty years ago, the last three years of ownership qualify for exemption, whether or not the owner was in residence for that period. This is designed to prevent a tax charge arising if, for example, the old house proves difficult to sell or the new requires renovation before the owner can move in.

In his Autumn Statement, the Chancellor announced that, from 6 April 2014, this three-year period of grace will be shortened to eighteen months 'to make the tax system fairer by reducing the incentive for those with more than one property to exploit the rules.' The eighteen month rule will apply wherever contracts for the sale of the house, *etc*, are exchanged on or after 6 April 2014,

except that the three year rule will continue to apply, subject to stringent conditions, where the homeowner is disabled or has moved into long-term residential care.

EMPLOYER'S NATIONAL INSURANCE CONTRIBUTIONS

The National Insurance 'Employment Allowance', originally announced in the Chancellor's Spring 2013 Budget, will be launched in April 2014. Essentially it means that a business (or a charity or other voluntary organisation) will be excused payment of the first £2,000 of employer's National Insurance contributions otherwise due each tax year. This will not affect the contributions payable by employees, or the benefits accruing to them.

The reduction is called 'the Employment Allowance' because the Government hopes that it will encourage small firms, especially, to take on more staff. However, a firm will be entitled to the allowance whether or not it takes on new staff. Moreover, even a one-man company will be able to claim the allowance against employer's contributions due on remuneration paid to the proprietor-director (unless the relevant earnings are caught by the IR 35 legislation).

A planning point for a small family company is that the shareholder-directors currently often choose to pay themselves salaries under the point at which employer's National Insurance contributions become payable (£7,696 for 2013/14). However, for 2014/15 it may be better to take a salary equal to the income tax personal allowance (£10,000 for 2014/15) – the point being that every extra pound taken will cost 12p in employee's National Insurance contributions but save 20p in corporation tax.

The Employment Allowance will not be available for domestic staff, such as a nanny or a personal carer. There will also be some anti-avoidance provisions to prevent, for example, 'doubling up' relief by transferring the business to a new company.

The employer will make his claim as part of his usual PAYE Real Time Information (RTI) submission. He will be able to use HMRC's Basic PAYE Tools to do this, and the formal claim will be by way of ticking a box on his EPS submission.

NIC exemption for under-21 year olds

In his Autumn Statement the Chancellor also announced that, from April 2015, no employer National Insurance contributions will be payable on the earnings of under-21 year olds (unless, exceptionally, their earnings exceed the National Insurance Upper Earnings Limit, estimated to be £813 a week for 2015/16). This new exemption means, for example, that if a 20-year old is paid £12,000 a year, his or her employer will save over £500 a year in employer National Insurance contributions. If he or she is paid £16,000, the employer will save over £1,000. The employee's entitlement to Social Security benefits will not be affected.

The new relief will not be time-limited and will be separate from, and additional to, the £2,000 a year 'Employment Allowance' described above.

TAX CREDITS AND UNIVERSAL CREDIT

Under the Government's original plans, from April 2014 no new claims to Tax Credits would have been accepted – people, whether employed or self-employed, would have had to claim the new Universal Credit instead. Also, from April 2014 there would have been a phased transfer of existing Tax Credit claimants to Universal Credit.

Claimants would have noticed significant changes, because Universal Credit is designed to work in a very different way to Tax Credits – for example, self-employed people would have had to report their earnings on a monthly basis.

However, the Department for Work and Pensions (DWP) has experienced enormous difficulties in developing the computer systems needed to administer Universal Credit. So far there has been only a very limited programme of pilot schemes in local Jobcentre areas – and the latest news is that even that programme is now slipping behind schedule.

The most recent DWP statement is that there will be no significant migration to Universal Credit before 2016/17. Accordingly, for 2014/15 and 2015/16, claimants outside the pilot scheme areas will continue to receive Tax Credits in accordance with the current rules and procedures.

CAPITAL ALLOWANCES FOR MACHINERY AND VEHICLES

Broadly speaking, Annual Investment Allowances (AIAs) allow the whole cost of machinery and vehicles (other than cars) to be written off, for tax purposes, in the year of purchase. A year ago, in his December 2012 Autumn Statement, the Chancellor of the Exchequer announced that the annual ceiling on expenditure qualifying for these Allowances would be increased from £25,000 to £250,000, but only for the two years beginning 1 January 2013.

Logically, the directors of a company might suppose (a) that this means they have until the end of 2014 to make a major purchase which will qualify for the full £250,000 Allowance and (b) that up to £25,000 spent in any accounting year will still qualify for an immediate write-off. Unfortunately, neither assumption would be correct unless the company has a 31 December accounting date. This is because, if it has any other accounting date, the maximum qualifying expenditure for the company's accounting year is calculated on a time-apportionment basis – for example:

Company accounting date 31 March 2015

Nine of the twelve months fall in 2014, for which an allowance of £250,000 is due, and three in 2015, for which the allowance is £25,000. Accordingly, the allowance for the year to 31 March 2015 is:

9/12 (months) × £250,000	£ 187,500
3/12 (months) × £25,000	£ 6,250
	£ 193,750

Much worse, there is a second transitional rule that only £6,250 of any purchases made in the three months January to March 2015 will qualify for an immediate write-off. Accordingly, if that company

invested (say) £10,000 in machinery in February 2015, its AIA would be capped at £6,250 even if it had bought nothing else that accounting year.

Company accounting date 30 June 2015

Here six of the twelve months fall in 2014, for which an allowance of £250,000 is due, and six in 2015, for which the allowance is £25,000. Accordingly, the allowance for the year to 30 June 2015 is:

6/12 (months) × £250,000	£ 125,000
6/12 (months) × £25,000	£ 12,500
	£ 137,500

It follows that the cap on qualifying expenditure for the six months January to June 2015 is £12,500.

Company accounting date 30 September 2015

Three of the twelve months fall in 2014, for which an allowance of £250,000 is due, and nine in 2015, for which the allowance is £25,000. Accordingly, the allowance for the year to 30 September 2015 is:

3/12 (months) × £250,000	£ 62,500
9/12 (months) × £25,000	£ 18,750
	£ 81,250

Here the cap on qualifying expenditure for the nine months January to September 2015 is £18,750.

The same rules apply to partnerships and sole traders whose accounting date is other than 31 December.

It will be seen from the above examples that, in many cases, entitlement to an Annual Investment Allowance may be increased by bringing an investment forward, and in some cases even by putting it back, so that it is not made in the accounting year which straddles 31 December 2014.

To add further difficulty, there are some complicated rules for determining when a purchase is treated, for Annual Investment Allowance purposes, as being made – it is not usually either the day you place the order or the day you sign the cheque. Accordingly, if you are planning investment in machinery or vehicles, and wish to be able to claim the Annual Investment Allowance on some or all of the expenditure, we strongly recommend you to contact us as soon as possible, for individual advice on timing your purchases.

This newsletter deals with a number of topics which, it is hoped, will be of general interest to clients. However, in the space available it is impossible to mention all the points which may be relevant in individual cases, so please contact us for personal advice on your own affairs.