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Taxation Update and Planning February 2017

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Pre 6 April Tax Planning

- Ensure income is utilising all lower rates of tax
  - ⇒ Personal allowance £11,000
  - ⇒ Dividend allowance £5,000
  - ⇒ Basic rate band £32,000
- Consider timing of income if around the £100,000 limit where allowances are lost
- Consider if a spouse has available allowances or bands
- Maximise desired pension payments taking into account restrictions to the annual allowance (which can be between £10,000 and £40,000) and ISA allowances
- Ensure company pension contributions are made before the company yearend (often 31 March)
- Maximise income up to National Insurance limits to ensure a credit for state pension
- Consider any claims for 2012/13 which expire after 4 years
- Maximise use of Capital Gains Tax Annual Exemption
- Maximise use of Inheritance Tax Annual Gift Allowance

Key 2017/18 Rates and Allowances

- The personal allowance increases to £11,500.
- Anyone with income in excess of £123,000 will lose the personal allowance.
- The basic rate remains at 20%, the higher rate 40% and the additional rate 45%.
- The basic rate applies to the first £33,500 of taxable income, the higher rate applies to the next £116,500 (taxable income between £33,501 and £150,000) and the additional rate applies to taxable income in excess of £150,000.
- The dividend tax rates are unchanged, at 7.5% for dividends that fall within the basic rate band, at the dividend upper rate of 32.5% where they fall within the higher rate band and at the dividend additional rate of 38.1% where they fall within the additional rate band.
- The dividend allowance remains at £5,000. Dividends covered by the allowance are taxed at a zero rate. This band sits within the basic rate band for higher rate tax payers.
- The rate of corporation tax is reduced to 19% for the tax starting on 1 April 2017.
- Money Purchase Pension Annual Allowance reduces from £10,000 to £4,000, for those who have flexibly accessed their pension pot.
- Lifetime ISA allowances introduced (for under 40s)
- New rules start to take effect which restrict the amount of tax relief that landlords can claim in respect of interest and other finance costs

Changes to the Vat Flat Rate Scheme

The VAT flat rate scheme is an optional simplified accounting scheme for small businesses. The scheme is available to businesses which are eligible to be registered for VAT and whose taxable turnover (excluding VAT) in the next year will be £150,000 or less. Once in the scheme, a business can remain in it as long as its taxable turnover for the current year is not more than £230,000.

The flat rate scheme is designed to simplify the recording of sales and purchases. Under the scheme a business works out the VAT that it is required to pay over to HMRC by applying a flat rate percentage to its gross (VAT-inclusive) turnover. The flat rate percentage depends on the type of business.

From 1 April 2017 onwards, in determining which percentage to use, a business will also need to determine whether it is a 'limited cost trader'. This is a trader whose VAT inclusive expenditure on goods is either less than 2% of their VAT inclusive turnover for the prescribed accounting period or more than 2% of VAT inclusive turnover but less than £1,000 a year. In working out if the 2% test is met, capital expenditure, expenditure on food and drink for consumption by the flat rate business or its employees and expenditure on vehicles, vehicle parts and fuel (other than where the business is one that carries out a transport service) is ignored.

Where from 1 April 2017 a business using the flat rate scheme meets the definition of a 'limited cost trader', that business will have to work out VAT payable to HMRC using a flat rate percentage of 16.5% rather than the lower flat rate percentage applicable to its business sector.

Deemed Domicile

From 6 April 2017 anyone who has been resident in the UK for 15 of the previous 20 tax years will be deemed to have a UK domicile where they do not already have one. This will apply for all tax purposes and will replace the current deemed domicile rule for inheritance tax purposes whereby an individual is deemed to be domiciled in the UK where he or she has been UK-resident for 17 of the previous 20 tax years.

The introduction of the deemed domicile will mean that the option to be taxed on the remittance basis on payment of the remittance basis charge will from 6 April 2017 no longer be available to those who have been resident in the UK for tax purposes for 15 of the last 20 tax years. The remittance basis is only available to those who are not UK domiciled or who are not deemed to be so domiciled. Consequently, the higher rate of the remittance basis charge (£90,000 for those resident in at least 17 of the previous 20 tax years) will cease to apply from 6 April 2017.

Anyone caught by the new rule will need to review their residence position.

Making Tax Digital Proposals from 2018

The changes will affect most businesses, including small businesses, partnerships, self-employed, and landlords the requirement is for quarterly reporting and a subsequent year end reconciliation

It is currently intended that it will be introduced:

- for landlords and the self employed from 6 April 2018 (although there may be a deminimus threshold) if profits are chargeable to income tax and pay Class 4 national insurance contributions (NICs);
- for businesses registered for and paying VAT from April 2019; and
- for corporation tax payers from April 2020.
- It will be mandatory for all businesses by 2021.
- Individual partners in partnerships will no longer have to separately provide HMRC with details of their share of the profits or losses from the partnership

Other maters which are being discussed are the extension of the cash basis for preparing accounts and the ability to pay tax earlier to aid cash flow.

Individuals in employment and pensioners will be exempt from digital tax reporting unless they have secondary incomes of more than £10,000.

The final requirements will not be known until legislation is laid later this year, but all businesses need to start planning for extra work from 2018. As yet, the consultation on incorporated businesses has not been published, but is likely to be released later this year. It is known that legislation will be introduced in Finance Bill 2017 which is likely to set out:

- Digital record keeping - how to keep records of trading and transactions digitally;
- Establishing taxable profit - how to establish taxable profit, including details on how to record accounting and tax adjustments and reporting procedures for reliefs and allowances.
- Quarterly reporting – the process for quarterly updates, including the level of detail, time periods and deadlines for submissions. This includes:
  (1) for VAT, these quarterly updates will effectively replace the VAT return; and
  (2) for income tax and corporate tax, these updates will cumulatively build an in-year picture of the business' tax position.
- The fifth return, defined as the 'End of Year' activity how businesses will finalise their taxable profit for a period with the yearend reconciliation submitted within 10 months of the fourth quarter end which will confirm the taxable profits for the previous year. This will involve checking and agreeing the total for that year, based on the information which they have provided in the relevant four quarters;