



Taxation Update and Planning January 2018

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RATES AND ALLOWANCES

Personal allowance

The personal allowance increases to £11,850 for the 2018/19 tax year. As for 2017/18, the personal allowance is reduced by £1 for every £2 by which adjusted net income exceeds £100,000. This means that anyone with income in excess of £123,700 in 2018/19 will not receive a personal allowance.

Marriage allowance

The marriage allowance – set at 10% of the personal allowance – is increased to £1,185 for 2018/19. Changes are being made to the rules to allow a claim to be made in respect of a deceased spouse or civil partner, and for claims to be back-dated four years.

Income tax rates and thresholds

The basic rate band is increased to £34,500 for 2018/19, raising the rate at which higher rate tax becomes payable to £46,350. As for 2017/18, the additional rate threshold remains at £150,000.

The rates of income tax in the UK (excluding Scotland) are unchanged for 2018/19, with the basic rate remaining at 20%, the higher rate at 40% and the additional rate at 45%.

New income tax bands in Scotland

Two new income tax bands – a starter band and an intermediate band – are to be introduced in Scotland for 2018/19. For 2018/19, Scottish taxpayers will pay tax at the starter rate of 19% on income in excess of the personal allowance of £11,850 up to £13,850, basic rate tax at 20% is payable on income from £13,851 to £24,000, tax at the intermediate rate of 21% is payable on income above £24,000 up to £44,273, tax at the higher rate of 41% is payable on income above £44,273 up to £150,000 and tax is payable at the top rate of 46% on income over £150,000.

Dividend tax

The dividend tax rates for 2018/19 remain at 7.5% to the extent that dividend income falls in the basic rate band, at 32.5% to the extent that dividend income falls in the higher rate band, and at 38.1% to the extent that dividend income falls in the additional rate band. However, the dividend allowance – the band within which dividends are taxed at a zero rate – falls from £5,000 to £2,000 from 6 April 2018.

Savings

The savings allowance remains at £1,000 for basic rate taxpayers and at £500 for higher rate taxpayers for 2018/19. As for 2017/18, additional rate taxpayers do not benefit from a tax-free savings allowance.

The savings rate of tax remains at 0% on the first £5,000. The savings rate is restricted by non-savings income and the benefit of the 0% rate is lost if taxable non-savings income is more than £5,000.

Capital gains tax

The exempt amount for capital gains tax purposes is increased to £11,700 for 2018/19. The rates of capital gains tax remain at 10% to the extent that total taxable income and gains does not exceed the basic rate limit and at 20% where income and gains are more than the basic rate limit. Higher rates of, respectively, 18% and 28%, apply to gains on residential property.

Corporation tax

The rate of corporation tax for the financial year 2018 (the year starting on 1 April 2018) remains at 19%.

VAT threshold

The VAT threshold is frozen at its current level of £85,000 for two years from 1 April 2018. The VAT de-registration threshold remains at £83,000.

National Insurance contributions

For 2018/19 the lower earnings limit for Class 1 National Insurance purposes is increased to £116 per week, the primary and secondary thresholds are increased to £162 per week and the upper earnings limit is increased to £892 per week. The upper secondary threshold for under 21s and the apprentice upper secondary threshold, both aligned with the upper earnings limit, increase to £892 per week for 2018/19.

The main primary rate of Class 1 contributions remains at 12%, the additional rate remains at 2% and the secondary rate remains at 13.8%.

The National Insurance employment allowance remains at £3,000 for 2018/19.

The Class 2 small profits limit rises to £6,205 for 2018/19 and the weekly rate of Class 2 contributions increases to £2.95 per week.

The rate of voluntary Class 3 contributions increases to £14.65 per week for 2018/19.

The lower profits limit for Class 4 contributions increases to £8,424 for 2018/19 and the upper profits limit increases to £46,350. The main rate of Class 4 contributions remains at 9% and the additional rate remains at 2%.

NATIONAL INSURANCE FOR THE SELF-EMPLOYED

Abolition of Class 2 delayed

Class 2 National Insurance contributions were due to be abolished with effect from 6 April 2018, with Class 4 contributions being reformed from the same date to provide the mechanism by which the self-employed can build up their contributions record and earn entitlement to the state pension and to certain contributory benefits.

However, the start date of the reforms has been delayed and they will now be implemented from 6 April 2019 – one year later than originally planned. This will mean that the self-employed will continue to pay both Class 2 and Class 4 contributions for 2018/19, as for now.

Class 2 contributions will now be abolished from 6 April 2019. From that date, Class 4 contributions will earn pension and benefit entitlement. A new small profits limit will apply for Class 4 purposes, with Class 4 contributions being charged at a notional zero rate where profits fall between the new small profits limit (set at 52 times the lower earnings limit applying for Class 1 purposes) and the lower profits limit. Self-employed earners whose profits fall in this band will be able to build up their contribution record for zero contribution cost.

TERMINATION PAYMENTS

New rules for termination payments from April 2018

Changes to the way in which payments made on the termination of an employment are taxed come into effect from 6 April 2018. As result of the changes, payments in lieu of notice (PILONs) will be taxed as earnings, regardless of whether there is a contractual entitlement to the PILON, or an expectation that a PILON will be made.

Under the new rules, the payments made on termination are essentially compared to the earnings that the employee would have received had he or she worked their notice period. Only payments in excess of this are treated as termination payments and benefit from the £30,000 tax exemption, unless the payment is of a type, such as statutory redundancy pay, which benefits from exemption regardless.

Class 1 National Insurance contributions were to have been charged on termination payments in excess of the £30,000 exempt amount with effect from 6 April 2018. However, the start date for the new Class 1A charge on termination payments has been delayed and will now take effect from 6 April 2019. Payments made on termination which are taxed as earnings are liable to Class 1 (employee and employer) National Insurance contributions.

DIVIDEND ALLOWANCE

Dividend allowance reduced

The dividend allowance is reduced from £5,000 to £2,000 with effect from 6 April 2018.

The dividend allowance is effectively a zero-rate band and dividends that are covered by the allowance are received free of tax. All individuals are entitled to a dividend allowance, regardless of whether they pay tax at the basic, higher or additional rate.

Many personal and family companies extract profits in the form of dividends once a small salary has been taken. Where possible, it is advantageous to ensure that the dividend allowance for 2017/18 is not wasted and, if necessary, declare and pay a dividend prior to 6 April 2018 in order to mop up any unused dividend allowance.

Assuming dividends of at least £5,000 are taken each tax year, the reduction in the dividend allowance from £5,000 to £2,000 will increase the tax paid on dividends by a basic rate taxpayer by £225, that payable by a higher rate taxpayer by £975 and the dividend tax payable by an additional rate taxpayer by £1,143.

LANDLORDS

Mileage rates for landlords

From 6 April 2017 landlords with an unincorporated property business will have the option of using mileage rates to claim a deduction for business journeys in a car, van or motorcycle as an alternative to claiming capital allowances and a deduction for actual costs incurred.

The mileage rates for landlords are the same as those which can be paid tax-free to employees who use their own cars for business, namely 45 pence per mile for the first 10,000 business miles and 25 pence per mile for business mileage in excess of 10,000 miles a year for cars and vans and 24 pence per mile for business travel by motorcycle.

CHARGEABLE GAINS OF COMPANIES

End of indexation allowance

Indexation allowance for chargeable gains of companies is frozen at 31 December 2017. For disposals which occur on or after 1 January 2018, indexation allowance is computed by reference to the retail prices index or indexation factor for December 2017, regardless of the date on which the asset is disposed of.

DISINCORPORATION RELIEF

Disincorporation relief not extended

Disincorporation relief comes to an end on 31 March 2018 and availability of the relief will not be extended beyond this date. The relief allows a company to transfer certain types of assets to shareholders who continue the business in an unincorporated form without triggering a corporation tax charge on the disposal of the assets. Companies looking to disincorporate and wishing to take advantage of the relief need to do so by 31 March 2018.

COMPANY CARS

Higher diesel supplement

The appropriate percentage used to work out the taxable benefit in respect of a diesel company car is subject to a diesel supplement. From 6 April 2018, the diesel supplement is increased from 3% to 4%. The supplement will apply to all diesel cars registered on or after 1 January 1998 which do not meet the Real Driving Emissions Step 2 (RDE2) standard. Following the increase in the supplement, as now, the maximum charge remains at 37%.

Fuel benefit

The fuel benefit multiplier for 2018/19 is increased to £23,400.

Vans

The van benefit charge which applies to vans which are available for the private use of an employee (and where the private use is not limited to home to work travel) is set at £3,350 for 2018/19. The charge for a zero emission van is set at 40% of this figure for 2018/19, equal to £1,340. The van fuel benefit charge is set at £633 for 2018/19.

Electric cars and charging points

No benefit in kind charge arises where an employee with an electric car uses his or her employer's electricity to charge their car.

From 2020/21 new emissions bands are to be introduced for ultra-low emission vehicles. From that date, the charge for zero emission cars will be set at 2%. For cars with CO2 emissions in the 1 to 50g/km band, the appropriate percentage will depend on the electric range of the car, ranging from 2% for cars with an electric range of 130 miles or more to 14% for cars with an electric range of less than 30 miles.

MAKING TAX DIGITAL

Delay to MTD start date

Under the original timetable for making tax digital (MTD), the requirement to maintain digital records and report to HMRC quarterly was to have applied to unincorporated businesses whose turnover was above the VAT registration threshold of £85,000 from April 2018. This start date has now been put back and instead MTD will now start from April 2019 for VAT purposes only for businesses whose turnover is in excess of the VAT registration threshold. MTD will not be extended until April 2020 at the earliest.

This bulletin 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.

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