



Finance and Business  
for Breakfast



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# Budget 2017

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# Tax aspects: the plan of attack

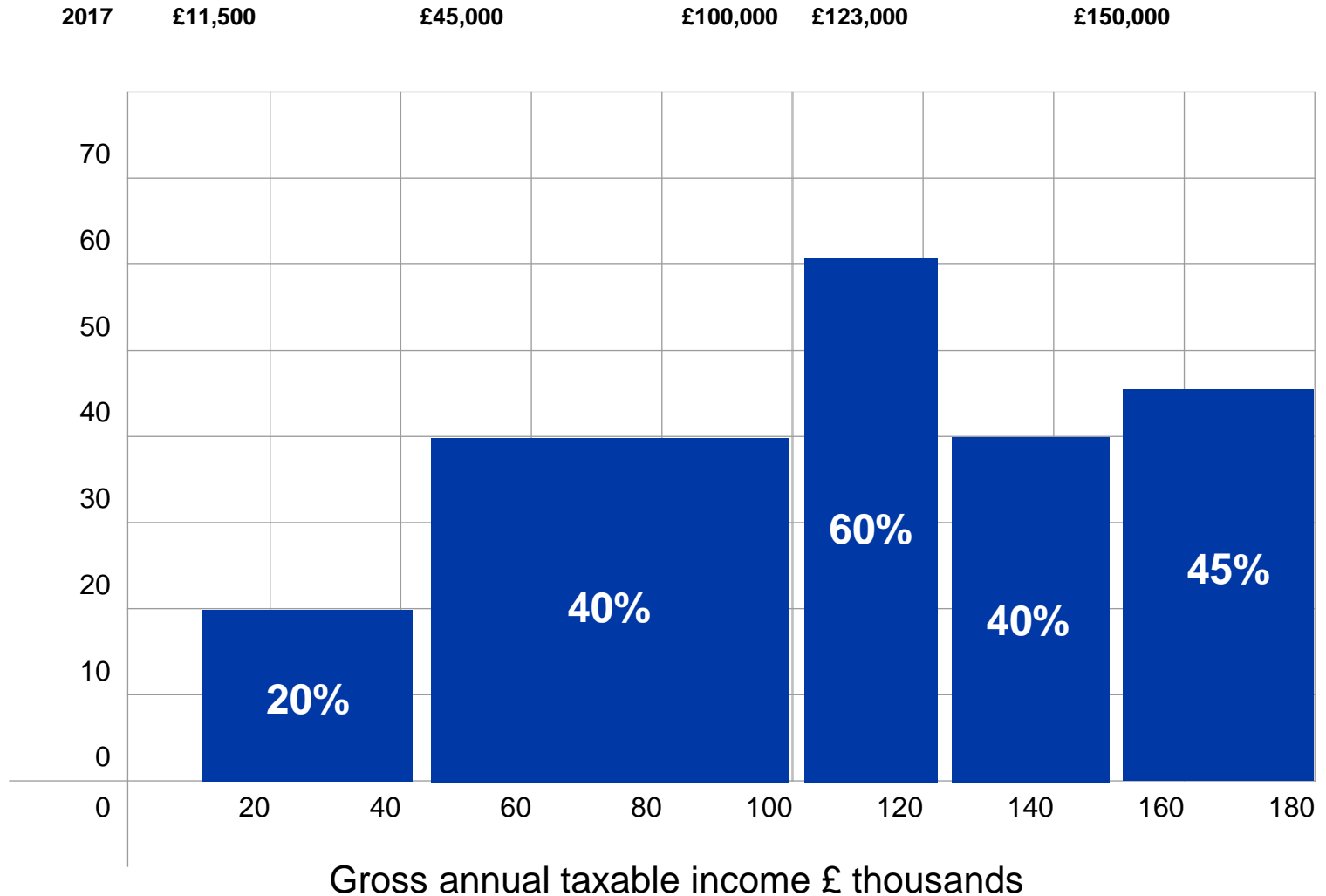
- **Rates and allowances changes**
- Proposed changes announced in the Budget
- Thoughts on impact of the changes
- What hasn't changed

# Income Tax – rates and allowances

	2016/17		2017/18	
<b><u>Individuals</u></b>	Income	Dividends	Income	Dividends
Basic rate	20%	7.5%	20%	7.5%
Higher rate	40%	32.5%	40%	32.5%
Additional rate	45%	38.1%	45%	38.1%
<b><u>Trusts &amp; Estates</u></b>				
Single rate	45%	38.1%	45%	38.1%

	From April 2016	From April 2017
Personal allowance	£11,000	£11,500
Basic rate band	£32,000	£33,500

# Marginal rates of Income Tax from April 2017



# Income Tax

- Dividend allowance
  - Reduced from £5,000 to £2,000 from April 2018
- Interest allowance
  - Basic rate tax payer - £1,000
  - Higher rate tax payer - £500
  - Additional rate tax payer - £nil
- Trading and property allowances
  - £1,000 available to all taxpayers
  - Deducted from income instead of actual expenses

# Pensions Tax relief

- Higher rate relief not abolished
- No change to the 25% tax free lump sum
- £40,000 flat rate annual allowance
- Ability to use unused annual allowance of three preceding years
- Lifetime limit reduced to £1m from April 2016
- Tapering of annual allowance where taxable income exceeds £150,000 from April 2016
- MPAA reduced from £10,000 to £4,000 when “flexibly accessed”

# Inheritance Tax

- Nil rate band £325,000 – frozen until April 2021
- Residence nil rate band starts in April 2017 – up to £175,000 from April 2020
- Ability to access deceased spouse's unused NRB
- Rates unchanged
  - Lifetime 20%
  - Death 40%
- No changes to
  - Spouse exemption
  - Business property relief
  - Potentially exempt transfers

# Capital Gains Tax

- Rates unchanged from April 2017
  - 20% for higher rate tax payers
  - 10% for basic rate tax payers
- 28% and 18% apply to disposals of residential property!
- 10% rate for Entrepreneurs' Relief and Investors' Relief
- Annual exemption: £11,300 for 2017-18



# Corporation Tax

- Corporation Tax rate
  - 20% from April 2016
  - 19% from April 2017
  - 17% from April 2020
- Relief for losses
  - Carried forward losses to be usable more flexibly
  - Restricted to 50% for profits over £5m
  - Applies to losses arising from April 2017

# Value Added Tax

- Standard rate remains 20%
- Registration threshold increased from £83,000 to £85,000 from 1 April 2017

# National Insurance Contributions

- No change in the Employer (13.8%) and Employee (11%/2%) rates
- From April 2018, taxable termination payments over £30,000 subject to Employers' NIC
- Class 2 NIC to be abolished from April 2018
- From April 2018 self-employed Class 4 rate to increase to 10% and 11% from April 2019

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# Proposed changes

- Introduction of a 25% charge on transfers to a QROPs (Qualifying Registered Overseas Pension scheme), except where “genuine need” to transfer within EEA
- PILONs (Payments in Lieu of Notice), whether contractual or otherwise, to be taxable on the equivalent of the employee’s basic pay for the period not worked
- Making Tax Digital (MTD) start deferred to April 2019 for unincorporated businesses and landlords with turnover below the VAT threshold (£85,000)

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# Impact of rate and allowance changes

	Change £	Tax @ 40%
2017/18		
• Increase in personal allowance	500	- 200
• Increase in basic rate band	1,500	- 300
• Increase in Class 1 NIC band	2,028	+ 223
2018/19		
• Reduction in dividend allowance	3,000	+ 975
• Abolition of Class 2 NIC	-	- 148
• Increase in Class 4 NIC	+ 1%	+ 368
2019/20		
• Increase in Class 4 NIC	+ 1%	+ 369

# Income splitting/husband and wife income tax planning

	Husband alone £'000s
Salary	20
Dividend	100
Property income	18
Interest income	2
Total income	140
Personal allowance	(0)
<b>Taxable income</b>	<b>140</b>
Tax thereon	<b><u>£40k</u></b>
Saving	



# Income splitting/husband and wife income tax planning

	Husband alone £'000s	Gift to wife £'000s	Husband after gift £'000s
Salary	20	10	10
Dividend	100	25	75
Property income	18	9	9
Interest income	2	1	1
Total income	140	45	95
Personal allowance	(0)	(11)	(11)
<b>Taxable income</b>	<b>140</b>	<b>34</b>	<b>84</b>
Tax thereon	<b><u>£40k</u></b>	<b><u>£3k</u></b>	<b><u>£19.5k</u></b>
Saving		£17.5k pa	

# Class 4 NIC increase – a level playing field?

## **Earner's income is £45,000 pa**

- 2% increase in Class 4 NIC for self-employed costs £737 pa (max)
- Saving in Class 2 NIC is £148 pa
- BUT employer pays 13.8% Class 1 NIC which is £5,088 pa
- BUT employer gets Corporation Tax reduction @20% = £10,018 pa
- BUT employer's NIC is not limited to £45k of income per employee

# ATED – beware of hidden penalties

- Annual Tax on Enveloped Dwellings applies where a company owns UK property worth over £500k
- Starts at £3,500 pa, rising to £220,000 pa for properties worth over £20m
- Exemptions for commercial letting, property development, job related accommodation
- Exemption must be claimed by 30 April in the relevant tax year
- Tax must be paid by 30 April in the tax year
- Penalties for late returns and late payment

# Employment allowance planning

- Companies entitled to claim £3,000 pa allowance against NIC payable on salaries
- From April 2016 companies with only one director (and no employees) **not** eligible
- Companies with two directors or one director and one employee **are** eligible, based on the regulations enacted
- HMRC considers that a second director or employee **must** earn more than the primary NIC threshold of £8,164 pa
- Safest to comply with HMRC interpretation, but contest where relevant

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# what hasn't changed

- No action on the 60% income tax band
- No NIC on dividends – but 7.5% Dividend Tax increase last year
- Income splitting opportunities
- BPR is still 100% - and unlimited
- PETs and 7-year rule available for IHT planning
- ER is still 10% - up to £10m gains
- EMI enables a 10% tax rate on employee reward
- Pensions relief available at marginal tax rate
- Generous limits for EIS, VCT and SEIS investment

# Budget Briefing Questions

## A few questions for us...



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