CHARTERED ACCOUNTANTS, TAX CONSULTANTS & FINANCIAL PLANNERS

ALBERT GOODMAN

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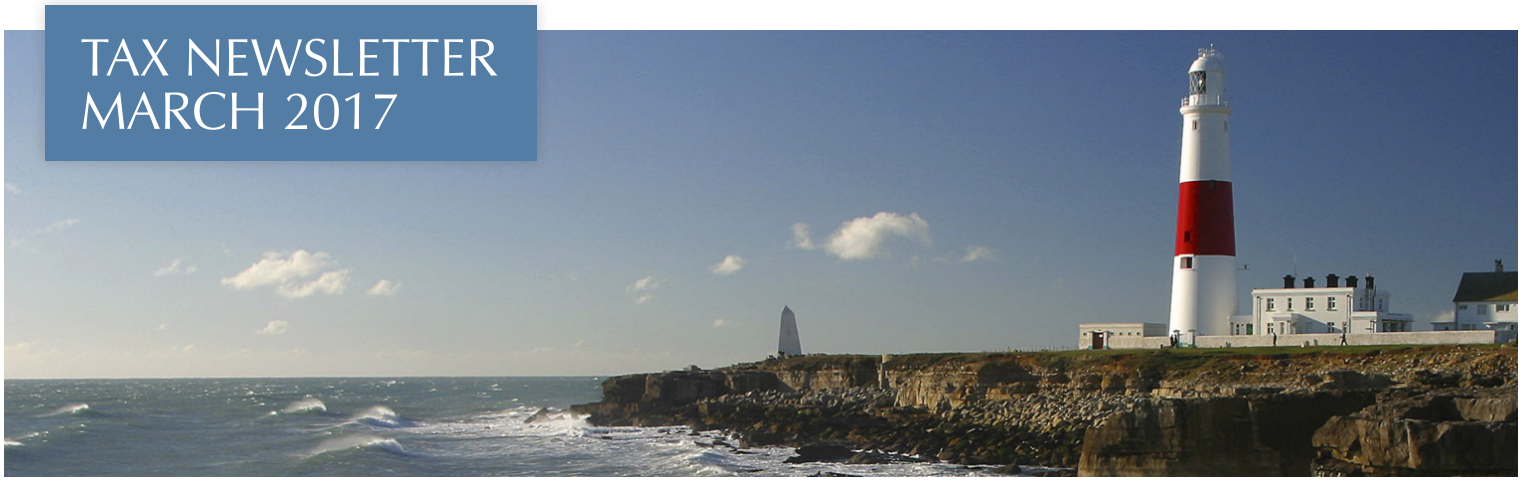

Welcome to this month's eNews. The Spring Budget took place earlier this month and our roundup of the key points can be found here: **http://albertgoodman.co.uk/wp-content/uploads/AG1011-Budget-2017-Summary.pdf** The second Budget of 2017 will take place in the Autumn, replacing the usual Autumn Statement and significant announcements are expected, given this will be first Budget post Article 50 being triggered and following major elections within the EU, such as in Germany.

More immediately, we take a closer look at some of the announcements made in the latest Budget, as well as tax reliefs available for interest paid on certain qualifying loans and the new lifetime ISA available from 6 April 2017.

Finally, we welcomed Tyler Wakeford from The Cabinet Office to our Budget Day event at Somerset County Cricket Club and he spoke about the government's Industrial Strategy. Tyler would welcome comments on the current consultation document which may be found here: **https://goo.gl/XavDL2**.

Please do get in touch if you would like any further guidance on any of the areas covered.

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WHITE VAN MAN U TURN

The Chancellor made a surprise U turn a week after Budget Day on the widely criticised increase to class 4 national insurance rates from 2018, announced in the Budget. Whilst we welcome the climb down, it is worth noting two things.

First, the threshold at which the higher rate of class 4 NIC is applied increases from 6 April 2017 by £2,000, meaning the liability will increase by £131 anyway for those earning more than £45,000, even without a rise in actual rates. Second, the whole concept of self employed versus employed will still be consulted on this Summer, but the scope of this review will now be widened, which could potentially leave the self employed even worse off.

Mr Hammond had announced that class 4 NIC rates, which are charged on the self employed, would increase from 9% to 10% from April 2018, and to 11% from 2019. Mr Hammond justified the increase by explaining that the gap between state benefits received by the self employed compared with the employed had closed considerably, most notably with the introduction of the new State Pension, and that the scale of difference needed to be dealt with.

The Chancellor did not anticipate the backlash from his Budget announcement for supposedly going against the Conservative's manifesto not to increase national insurance as part of the triple tax lock. Mr Hammond defended his position, clarifying that the tax lock applied only to the employed, as supported in the detail behind the manifesto, and the only concession made after the Budget outcry looked like it would be a delay in the legislation being published.

However, Mr Hammond confirmed on 15 March that even though it was clear the lock applied only to the employed, he would stick to the spirit of the manifesto and has pledged there will be no further NIC increases during the term of this Parliament, which means the increase in the class 4 rates will no longer go ahead. He has not however pledged to keep the thresholds the same and so we could still see rises in the future.

Mr Hammond has also widened the review to be undertaken of the differences between self employed and the employed later this year, stating that most commentators believe the increase in self employed numbers is at least in part driven by tax differences. He will also need to plug the £2 billion black hole that the climb down is reported to have left.

It therefore remains to be seen as to how generous the U turn turns out to be.

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A "MARKET LEADING" RETURN!

The 2017 budget has seen the launch of the National Savings & Investments' new three year bond. Originally announced in the Autumn Statement the Chancellor promised a "market leading return" and at 2.2% this is strictly true, but is only equal to the current market leader.

Although the rate is disappointing, it is still unfortunately the best on the market and may be worth considering for those who are able to lock funds away for significant periods.

The bond is available to anyone aged over 16 holding a UK bank account, and can also be opened jointly with one other person. The minimum investment is £100 per bond and the maximum is £3,000 per person. However, in order to benefit in full, the investment must be locked away for three years as any early withdrawals will lead to penalties.

As with bank interest, any interest on the bond will be paid gross without deduction of income tax and will only be taxable to the extent that an individual's savings income exceeds the new £1,000 tax free personal savings allowance for basic rate taxpayers, and £500 for higher rate taxpayers.

Lifetime ISA (LISA)

For those looking to invest even long term, the new Lifetime ISA will become available from 6 April 2017.

A LISA may be opened by an adult under the age of 40 who is resident in the UK, although account holders can continue paying into their accounts until they reach the age of 50.

An individual can save up to £4,000 a year into a LISA either by paying in a lump sum, or smaller amounts as and when. The government will then add a 25% bonus each year (this is paid annually in 2017/18 and then monthly from April 2018). The bonus for an individual opening an account on their 18th birthday, contributing the maximum of £4,000 each year until the age of 50, is £32,000!

The purpose of this ISA is primarily for first time buyers to use the funds to purchase a residential property (worth up to £450,000) to live in. This may be done at any time provided the LISA has been held for 12 months or more. Alternatively the funds can be used in retirement once an individual reaches the age of 60.

If the individual does not use the funds correctly, or draws down early, the bonus is lost, plus you will be charged 6.25% on the amount you originally put in.

Although this is free money and could provide a nice pension pot, employees saving for retirement should be careful. A workplace pension may still be the most tax efficient way to save for most, given the tax relief available on contributions plus any employer contributions.

ISA's do however continue to provide a tax-efficient saving option for many, and some will therefore be pleased to hear that the annual ISA investment allowance will rise to £20,000 from April 2017 (this does however include the £4,000 LISA allowance).

All in all there are some positive changes for savers ahead but still much disappointment for those who have saved for many years and are unfortunately getting very little return.

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BUSINESS RATES ANNOUNCEMENTS FROM THE BUDGET 2017

Philip Hammond's first and last Spring Budget speech offered some support to small businesses facing an increase in their business rates from April 2017, following pressure from retailers to tackle the "crippling" increase as a result of the most recent rateable value revaluations.

However, he fell short of abolishing increases altogether; stating business rates raise £25 billion a year for the Treasury.

The three measures of relief promised £435 million in support:

- Firstly, Mr Hammond capped the increase in business rates to those businesses coming out of small business rates relief, to no more than £50 per month extra this year than they paid in 2016-17.
- Secondly, £300 million of funding is to be provided to local authorities, allowing them to provide discretionary relief to help businesses most affected by the revaluation.
- Finally, for the 2017/18 tax year, pubs with a rateable value up to £100,000 will be able to claim a £1,000 business rates discount.

The Chancellor also added that he wanted the business rates system to be "fairer" and that it would be reformed, but he only committed to the government setting out "preferred reforms" prior to the next revaluation, which is not due for another five years.

In short, despite the reliefs, the revaluations will still significantly increase the amount paid on rateable properties by many businesses; costs many of those businesses will simply be unable to absorb. Furthermore, the softening of the blow for publicans will only delay the increase for another year.

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TRANSFERABLE MARRIAGE ALLOWANCE: TEETHING PROBLEMS

Some of you may have taken the opportunity to obtain a tax saving of £212 in the 2015/16 tax year by claiming to transfer any surplus tax free personal allowance from one spouse to the other if you are both no more than basic rate taxpayers.

We understand that a number of clients are now receiving assessments from HM Revenue and Customs ("HMRC") removing this relief, but we believe that in many cases this is being done incorrectly.

To date, we have encountered three reasons given by HMRC for denial of the relief:

- The claim has not been processed as it was made on the tax return rather than through the online claim form. Although claims can be made in this way and were processed earlier in the year, many are now being missed; we therefore suggest that new claims are made via the online form, which we can help you with. We are reviewing the claims made by our clients in the year to ensure that these are processed. In the meantime, if you think this has affected you for 2015/16, we can contact HMRC on your behalf to reinstate the relief.
- The claim has been rejected where the higher earning spouse's total income exceeds the basic rate band, but they are still a basic rate taxpayer as a result of reliefs set against income, for example loss relief or qualifying interest decisions. The relief is still due in these cases so please get in touch if this has affected you.
- In some cases, the marriage allowance transfer is only being processed where the transferring spouse's income is 90% or less of the personal allowance (£9,990 in 2016/17). This is not correct as 10% of the allowance can be transferred even if the transferring spouse pays tax.

Remember, you can claim to transfer the Marriage Allowance to obtain a tax saving of up to £220 in 2016/17 if the following apply:

- you're married or in a civil partnership
- either you or your partner don't earn anything or you are both only basic rate taxpayers
- you do not receive the Married Couple's Allowance

If you were eligible for Marriage Allowance in 2015/16 but didn't make a claim, it's not too late! You can backdate your claim to 6 April 2015 and get a repayment of tax of up to £212.

If you think any of the above issues apply to you, or would like further information, please contact us.

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FURTHER ISSUES WITH CLASS 2 AND 4 NIC FOR 2015/16

Following on from the issue highlighted in our February E-News bulletin, surrounding NIC amounts incorrectly calculated in self assessment tax calculations, there are further complications to be aware of in relation to Class 2 and Class 4 NIC.

If you are employed as well as self-employed, then you will have been paying Class 1 NIC on employment income and Class 2 and 4 NIC on your self-employment income. There are two possible issues here:

- There is an interaction between all three classes of NIC and the amount of Class 4 NIC can be reduced if you have already paid sufficient Class 1 NIC in respect of employment income in any tax year.
- There is also a more obscure interaction between just Class 1 and Class 2 NIC where the total Class 1 NIC paid can, in some circumstances, also restrict the Class 2 NIC which is due.

If you are just self-employed and only liable to Class 2 and 4 NIC, there are still issues relating to miscommunications between HMRC and the NIC Office:

- In some cases, the NIC office does not have a note that an individual is self-employed and therefore the information they provide to HMRC is that no Class 2 NIC is due, is despite reporting self-employment income on tax returns in previous years. This can be rectified by calling the NIC office, but if Class 2 NIC has not been paid in earlier years when it was due, this may result in a demand for arrears.

- Because Class 2 NIC is now being dealt with via the self assessment tax return rather than being collected by direct debit, some taxpayers have cancelled their direct debit arrangements. In some circumstances, the NIC Office has taken the cancellation to imply that the self-employment has ceased and therefore have calculated less than 52 weeks of Class 2 NIC being due. Again, this can be rectified by calling the NIC Office confirming that the self-employment has not ceased.

Finally, it is also worth remembering that Class 2 NIC is not due in any week for which you are in receipt of certain benefits (incapacity benefit, sickness benefit, invalidity benefit, invalid care allowance, unemployability supplement or maternity allowance) or are incapable of work or are detained in custody or imprisoned.

If you have any problems with this aspect of your tax calculation, particularly if you receive a revised calculation from HMRC, please let us know.

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CONSTRUCTION INDUSTRY - SUBCONTRACTOR VERIFICATIONS

HMRC have confirmed in the latest Employer Bulletin that changes will be made to the verification of subcontractors in the Construction Industry Scheme (CIS) from 6 April 2017.

From 6 April 2017, contractors must use an approved method of electronic communication to verify their subcontractors. So from 6 April 2017 HMRC will no longer accept any telephone calls to verify subcontractors and from then contractors must verify subcontractors using:

- the free HMRC CIS online service, or
- commercial CIS software.

This change is one of a series made to CIS to increase HMRC efficiency and accuracy, and to reduce administration. HMRC are also reminding contractors that they have also introduced additional features of the online system including the ability to amend returns online, and the addition of an online message/alert service.

Contact us for help with CIS issues.

Internet link: Employer Bulletin

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PROVIDING SERVICES TO THE PUBLIC SECTOR - OFF PAYROLL WORKING

In the latest Employer Bulletin HMRC advise those providing services to a public sector client through their own limited company (PSC) to ensure they are ready for the new rules which take effect from 6 April 2017.

The new rules for off payroll working, commonly referred to as IR35 or the Intermediaries legislation, take effect from 6 April 2017.

These changes mean individuals working through their intermediary in the public sector will no longer be responsible for deciding whether the intermediaries' legislation applies and then paying the appropriate tax and National Insurance contributions (NICs). This responsibility will instead move to the public authority client, agency, or third party that pays the worker's intermediary, and they will also now become responsible for making sure that, where the rules apply, the relevant income tax and NICs are deducted and reported through PAYE in real time.

The public authority client is required to tell any agency or third party its view as to whether the rules apply. HMRC have been consulting on these new rules and the legislation has yet to be finalised.

A new **online tool** is available to check your status but it is important to note that the tests for whether you would be an employee of the public sector, had you not operated through your company, have not changed. However, we suspect the default position by the engagers will simply be to deduct tax and national insurance, forcing the PSC to contact HMRC for a status ruling.

If you have concerns in this area please contact us.

Internet links: Employer Bulletin | Technical note

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ADVISORY FUEL RATES FOR COMPANY CARS

New company car advisory fuel rates have been published which took effect from 1 March 2017. The guidance states: 'You can use the previous rates for up to one month from the date the new rates apply'. The rates only apply to employees using a company car.

The advisory fuel rates for journeys undertaken on or after 1 March 2017 are:

Engine size	**Petrol**
1400cc or less	11p
1401cc - 2000cc	14p
Over 2000cc	22p
Engine size	**LPG**
1400cc or less	7p
1401cc - 2000cc	9p
Over 2000cc	14p
Engine size	**Diesel**
1600cc or less	9p
1601cc - 2000cc	11p
Over 2000cc	13p

Other points to be aware of about the advisory fuel rates:

- Employees driving employer provided cars are not entitled to use these rates to claim tax relief if employers reimburse them at lower rates. Such claims should be based on the actual costs incurred.
- The advisory rates are not binding where an employer can demonstrate that the cost of business travel in employer provided cars is higher than the guideline mileage rates. The higher cost would need to be agreed with HMRC.

If you would like to discuss your car policy, please contact us.

Internet link: GOV.UK AFR

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LOW EMISSION CARS – BUMPS IN THE ROAD?

Low emission cars have a number of tax incentives but you need to be aware of thresholds which are changing in the near future.

Cars emitting 51-75 g/km of CO2:

If provided by an employer to an employee, the car benefit is currently calculated by multiplying the list price of the car by 11%. This percentage rises to 13% from 6 April 2017; 16% from 6 April 2018 and 19% from 6 April 2019 – a tax increase of nearly 73% over the next three years or so.

Such cars also qualify for a 100% First Year Allowance (FYA) providing it is purchased before 5 April 2018 (1 April 2018 for companies).

If purchased after 1 April 2017, they will also qualify for a VED (road tax) charge of £25 in the first year.

Cost emitting 0 – 50 g/km of CO2:

These cars currently give rise to a car benefit of 7% of the list price up to 5 April 2017, but this will rise to 9% from 6 April 2017, 13% from 6 April 2018 and 16% from 6 April 2019 – a massive increase of 128% over the next three years.

These cars also qualify for 100% FYA until 5 April 2021 (1 April 2021 for companies).

If purchased after 1 April 2017, they will qualify for a VED (road tax) charge of £10 in the first year.

Please note that the percentages for car benefits referred to above are for petrol cars. There is a 3% supplement for diesel cars which changes the overall rise in tax over three years to 57% and 90% respectively.

It is also worth mentioning that both classes of cars mentioned above will continue to qualify for salary sacrifice purposes, despite the changes which are coming in from 6 April 2017 for most schemes.

For higher emission cars the thresholds are also changing from 6 April 2018 (1 April 2018 for companies).

Planning Points:

For employees, be aware that the tax cost of being provided even with a low emission car will quickly increase over the next few years, despite the government trying to educate people to go for the lower emission option.

For employers, it makes sense to buy or lease these vehicles before April 2018 when the rate of relief will rapidly slow down.

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NO DIESEL SUPPLEMENT FOR HYBRID CARS

It will soon be time to start preparing P11D forms for the 2016/17 tax year.

When reporting a car benefit, it is important to check whether a diesel supplement applies so that the car and fuel benefit is calculated correctly. There has been some confusion as to whether a diesel hybrid model attracts the diesel supplement.

The answer is no. As the car does not run **solely** on diesel, the 3% supplement does not apply.

If you need any more guidance on this or on car benefits in general, please do get in touch.

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