Autumn Statement 2016

www.cowgills.co.uk

Autumn Statement 2016

Lisa Wilson, Tax Partner at Cowgill Holloway gives her view on the Autumn Statement 2016.

The Chancellor Philip Hammond's inaugural Autumn Statement was not expected to deliver widespread tax changes and other than some tweaking at the edges, there wasn't much of note.

The majority of the tweaking seems to have been focused on the relationship between employer and employee. Changes to the Employee Shareholder Status giving us the only surprise of the day with its effective abolishment with immediate effect.

Tinkering with the Employee and Employer National Insurance Contribution thresholds follows the announcement in the spring budget of the abolition of Class 2 contributions. The salary sacrifice rules similarly have been restricted.

The reiteration of the future increases in personal allowances and the already announced reduction in the Corporation Tax rate did nothing to ally the gloom surrounding the predicted UK growth figures. Whilst the increase in spending on R&D, digital technology and Local Enterprise Partnership grants was welcome, how the benefit of these measures will cascade down to clients is yet unclear.

Clients no doubt will welcome the announcement of the changes to the Spring Budget/ Autumn Statement. Having one date where changes to the tax regime will be introduced will hopefully allow better public consultation.

Increased staff costs

The Autumn Statement included a number of new measures which will increase the cost of employing workers across all types of businesses - from low paid workers and apprentices (with increased minimum wage) right through to company executives (and withdrawal of salary sacrifice tax savings).

Increase in National Minimum and National Living Wage

The National Living Wage for individuals aged 25 and over will increase 4% from £7.20 per hour to £7.50 per hour from April 2017, the equivalent of a pay rise worth over £500 to a full time worker.

In addition to the National Living Wage, the National Minimum Wage will also increase from April 2017 and the new rates are as follows;

- for 21 to 24 year olds – from £6.95 per hour to £7.05
- for 18 to 20 year olds – from £5.55 per hour to £5.60
- for 16 to 17 year olds – from £4.00 per hour to £4.05
- for apprentices – from £3.40 per hour to £3.50

To ensure that the rate rises are implemented and workers are granted their rights to this salary increase, the government will also be pledging a further £4.3 million that will be spent on:

- Educating small businesses to gain a better understand of the rules.
- Cracking down on employers who are breaking the law by not paying the national minimum or living wage.

Our view - For those who already have high human capital commitments this could have a significant impact.

Increased National Insurance

Following recommendations by the Office of Tax Simplification, from April 2017 the National Insurance thresholds for employers and employees will be aligned. Currently, employees do not pay Class 1 National Insurance contributions until their earnings exceed £155 per week. The corresponding limit for employer payments is £156 per week. Following the announced changes both employers and employees will pay National Insurance on weekly earnings above £157 per week.

The change is one of several recent announcements made surrounding National Insurance in a bid to simplify and streamline payments for employees, employers and self-employed workers. As previously announced at Budget 2016 the Autumn Statement confirmed the abolishment of Class 2 National Insurance for the self-employed from April 2018 and clarified that self-employed contributory benefit entitlements will be accessed through Class 3 and Class 4 National Insurance going forward.

Our view - Employees will likely welcome this alignment, simplifying the current regime.

Withdrawal of salary sacrifice benefits

Employees can be remunerated for their work in a number of different ways including a cash salary and benefits in kind. The tax system currently treats these different forms of remuneration inconsistently. The majority of employees pay tax on a cash salary. But some are able to sacrifice salary and pay much lower tax on benefits in kind.

The Government will introduce ways to reduce this difference between the tax treatment of receiving a cash salary or benefits. The Government will take the following action:

- Salary sacrifice – From April 2017 the tax and National Insurance advantage relating to salary sacrifice schemes will be removed. This means employees who sacrifice part of their salary for benefits will pay the same tax as an employee who receives a full cash salary and purchases the benefit out of his post tax income. Arrangements already in place before April 2017 will be protected until April 2018. Arrangements for cars, accommodation and school fees will be protected until April 2021. These new rules will not affect benefits of pensions, childcare, Cycle to Work or ultra-low emission cars.
- Valuation of benefits in kind – the government will publish a consultation document on how benefits in kind are valued for tax purposes, including employer-provided living accommodation.

Our view - HMRC have made it clear in the past that they were unhappy with salary sacrifice agreements, and action is now being taken to rectify the position.

Employee Shareholder Scheme (ESS)

Employee shareholder was a new employment status introduced in September 2013. Employee shareholders had different employment rights to other employees and were rewarded at least £2,000 of shares in their employer company (the first £2,000 of value being tax free).

Originally shares awarded to employee shareholders were exempt from capital gains tax on exit provided their initial value was less than £50,000.

The government believes that the ESS is being used for the purposes of tax planning and not for the intended purpose of promoting loyalty amongst workforce and providing tax efficient incentives for employees.

It has therefore been announced that the income tax reliefs and capital gains tax exemption on employee shareholder shares will no longer be available with effect from 1 December 2016 on any shares acquired on or after that date.

Our view – This was a useful share scheme that had already been subject to amendment. There are other schemes available so all is not lost where employers wish to motivate and reward employees.

Changes to company tax

Changes to Corporation Tax losses

The Chancellor confirmed that he will implement new rules announced in the 2016 Budget on the use of corporate losses.

Increased flexibility is being introduced from 1st April 2017, meaning that companies will be able to use carried forward losses against profits from other income streams, or from other companies within a group. However, the plans will also limit the amount of profit that can be offset against losses carried forward to 50% of the amount of profits in excess of £5 million. Where the company is in a group, the £5 million allowance will apply to the whole group.

Our view – Great news for SMEs with profits below the £5m threshold but quite a large restriction for companies with profits in excess of this limit.

VAT – Flat Rate Scheme

HMRC has announced changes to the VAT Flat Rate Scheme to take effect from 1st April 2017 to prevent aggressive use of the scheme. Businesses will need to apply a new simple test and where one of the following applies, a new flat rate of 16.5% will apply:

The VAT inclusive expenditure on goods is either:

- less than 2% of the VAT inclusive turnover in a prescribed accounting period; or
- greater than 2% of the VAT inclusive turnover but less than £1,000 per annum if the prescribed accounting period is one year (if it is not one year, the figure is the relevant proportion of £1,000).

Goods, for the purpose of this measure, must be used exclusively for business purposes but exclude:

- capital expenditure;
- food and drink for consumption by the flat rate business or its employees;
- Vehicles, vehicle parts and fuel (except where the business is one that carries out transport services – for example a taxi business – and uses it's own or a leased vehicle to carry out those services).

Our view - This is a blow to small business, but there is still benefit in applying for the scheme to apply.

Other changes for businesses

First year allowances on electric charging points

The chancellor confirmed that from now until the end of March 2019, the Government will offer 100% First-Year Allowances (FYA) to businesses investing in new and previously unused charge-points for electric vehicles.

This measure complements the 100% FYA for cars with low carbon dioxide (CO2) emissions, and the 100% FYA for cars powered by natural gas, biogas and hydrogen; already in place.

Business Rate Changes

The Chancellor announced that the government will double rural rate relief to 100% from 1 April 2017. He also announced a new 100% business rates relief for new full-fibre infrastructure for a 5 year period from 1 April 2017; this is designed to support roll out to more homes and businesses.

He announced that the transitional relief cap for Business Rates will fall from 45% next year to 43%, and from 50% to 32% the year after. The changes should result in lower business rates for SME businesses as a result of the 2017 revaluations.

Substantial Shareholding Exemption reform

Following consultation, there will be changes to simplify the rules on Substantial Shareholding Exemption (SSE), removing the requirements of investing within the SSE, and furthermore, providing a more inclusive exemption for companies owned by qualifying institutional investors.

Contact us

www.cowgills.co.uk

01204 414243

Bolton Office:

Regency House

45-53 Chorley New Road

Bolton BL1 4QR

Manchester Office:

6th Floor, Sunlight House

Quay Street

Manchester M3 3JZ

Liverpool Office:

5th Floor, Yorkshire House

18 Chapel Street

Liverpool L3 9AG

Find out more..

www.cowgills.co.uk

enquiries@cowgills.co.uk

@cowgills

www.Linkedin.com/Company/Cowgill-Holloway-LLP

cowgillholloway