

# NEWSLETTER MAY 2016

## REGISTER OF PEOPLE WITH SIGNIFICANT CONTROL

From April 2016, rules are introduced which require companies to keep a register of People with Significant Control (PSC). In addition, the details of PSC will have to be filed with Companies House from 30 June 2016.

A PSC is defined as an individual that:

- holds, directly or indirectly, more than 25% of the shares or voting rights in the company; or
- holds the right, directly or indirectly, to appoint or remove a majority of the board of directors of the company; or
- has the right to exercise, or actually exercises, significant influence or control over the company; or
- where a trust or firm would satisfy any of the above conditions, any individual that has the right to exercise, or actually exercises, significant influence or control over the activities of that trust or firm.

The details of the individuals which need to be entered on the register include:

- name and address
- usual residential address, country of residence and nationality
- date of birth
- date when they became a PSC
- the nature of their control over the company.

Failure to comply with the requirements of the PSC regime could lead to the company or directors, or identified PSCs committing a criminal offence. The company and its directors could face a fine or imprisonment or both.

Further guidance can be found on the Companies House website or please contact us for more guidance in this area.

## NATIONAL MINIMUM WAGE RISES

The National Minimum Wage (NMW) rates will increase from 1 October 2016 as follows:

	<b>Current rate</b>	<b>Rate from 1 October 2016</b>
21-24 year olds	£6.70	£6.95
18-20 year olds	£5.30	£5.55
16-17 year olds	£3.87	£4.00
Apprentice rate*	£3.30	£3.40

From 1 April 2016 following the introduction of the National Living Wage all workers aged 25 and over are legally entitled to at least £7.20 per hour. Employers should ensure that all affected employees benefit from this new rate from 1 April 2016.

\*This apprentice rate is for apprentices aged 16 to 18 and those aged 19 or over who are in their first year. All other apprentices are entitled to the National Minimum Wage for their age.

## PERSONAL ALLOWANCES AND TAX BANDS

For those born after 5 April 1938 the personal allowance is currently £10,600. Those born before 6 April 1938 have a slightly higher allowance. Legislation has already been enacted to increase the personal allowance to £11,000 in 2016/17. From 2016/17 onwards one personal allowance will apply regardless of age.

Not everyone has the benefit of the full personal allowance. There is a reduction in the personal allowance for those with 'adjusted net income' over £100,000 which is £1 for every £2 of income above £100,000. So for 2015/16 there is no personal allowance where adjusted net income exceeds £121,200 (£122,000 for 2016/17).

### **Tax bands and rates**

The basic rate of tax is currently 20%. The band of income taxable at this rate is £31,785 so that the threshold at which the 40% band applies is £42,385 for those who are entitled to the full basic personal allowance.

Legislation has already been enacted to increase the basic rate limit to £32,000 for 2016/17. The higher rate threshold will therefore rise to £43,000 in 2016/17 for those entitled to the full personal allowance.

The additional rate of tax of 45% remains payable on taxable income above £150,000.

### **Tax bands and personal allowance for 2017/18**

The Chancellor has announced that the personal allowance will be increased to £11,500 and the basic rate limit increased to £33,500 for 2017/18. The higher rate threshold will therefore rise to £45,000 for those entitled to the full personal allowance.

## **REDUCTION IN CORPORATION TAX RATE**

The main rate of corporation tax is currently 20% and this rate will continue for the Financial Year beginning on 1 April 2016. In the following years the rate of tax will fall as follows:

- 19% for the Financial Years beginning on 1 April 2017, 1 April 2018 and 1 April 2019.
- 17% for the Financial Year beginning on 1 April 2020.

The 17% rate from April 2020 is a reduction of 1% from the rate previously announced by the Chancellor in his Summer Budget in 2015.

CBI Director-General, Carolyn Fairbairn, said:

*'The reduction in the headline Corporation Tax rate sends out a strong signal that the UK is open for global business investment, and reforms to Interest Deductibility are rightly in line with the international consensus.'*

## **PERSONAL SERVICE COMPANIES IN THE PUBLIC SECTOR**

From April 2017, individuals working through their own company in the public sector will no longer be responsible for deciding whether the intermediaries legislation applies and then paying the relevant tax and NIC. This responsibility will instead pass to the public sector employer, agency or third party that pays the worker's intermediary. The employer, agency or third party will have to decide if the rules apply to a contract and if so, account for and pay the liabilities through the Real Time Information (RTI) system and deduct the relevant tax and NIC.

HMRC has announced they will provide help for public sector employers and agencies with their new responsibilities. They plan to introduce clear, objective tests for employers to use to decide at the point of hire whether or not they need to consider the new rules and then identify those engagements that are caught by the rules.

For cases that are less clear cut, HMRC have announced that they will develop a simple digital tool. This will be designed to provide employers engaging an incorporated worker with a 'real-time' HMRC view on whether or not the intermediaries rules need to be applied.

Chris Bryce, Chief Executive of the Association of Independent Professionals and the Self Employed (IPSE), commented:

*'The Chancellor announced a number of measures today which are likely to impact independent professionals and the self-employed. His move to extend rules for off-payroll working in the public sector will create confusion and disruption. The engaging department or agency will be made responsible for any tax liability. This will result in genuine businesses having to jump through numerous hoops and will see the cost of engaging contractors increase. It will endanger the delivery of vital public services and important projects like HS2.'*

## BUSINESS RATES

Business rates have been devolved to Scotland, Northern Ireland and Wales. The Chancellor has announced cuts on business rates for half of all properties in England from 1 April 2017. In particular the government proposes to:

Permanently double the Small Business Rate Relief (SBRR) from 50% to 100% and increase the thresholds to benefit a greater number of businesses. Businesses with a rateable value of £12,000 and below will receive 100% relief, rateable values between £12,000 and £15,000 will receive tapered relief increase the threshold for the standard business rates multiplier to a rateable value of £51,000 taking 250,000 smaller properties out of the higher rate.

The government also proposes to modernise the administration of business rates to revalue properties more frequently and make it easier for businesses to pay the taxes that are due.

CBI Director-General, Carolyn Fairbairn, said:

*'Businesses will welcome the Chancellor's permanent reforms to business rates – taking more small firms out of the regime and changing the uprating mechanism from RPI to CPI, which the CBI has long been calling for.'*

## LIFETIME ISA

A new Lifetime ISA will be available from April 2017 for adults under the age of 40. Individuals will be able to contribute up to £4,000 per year and receive a 25% bonus from the government. Funds, including the government bonus, can be used to buy a first home at any time from 12 months after opening the account, and can be withdrawn from age 60 completely tax-free.

Further details of the new account, which will be available from 2017, are as follows:

- Any savings an individual puts into the account before their 50th birthday will receive an added 25% bonus from the government.
- There is no maximum monthly contribution and up to £4,000 a year can be saved into a Lifetime ISA.
- The savings and bonus can be used towards a deposit on a first home worth up to £450,000 across the country.
- Accounts are limited to one per person rather than one per home, so two first time buyers can both receive a bonus when buying together.
- Where an individual already has a Help to Buy ISA they will be able to transfer those savings into the Lifetime ISA in 2017, or continue saving into both. However only the bonus from one account can be used to buy a house.
- Where the funds are withdrawn at any time before the account holder is aged 60 they will lose the government bonus (and any interest or growth on this) and will also have to pay a 5% charge. After the account holder's 60th birthday they will be able to take all the savings tax-free.

The Chancellor said in his speech:

*'My pension reforms have always been about giving people more freedom and more choice.*

*So faced with the truth that young people aren't saving enough, I am today providing a different answer to the same problem.'*

## CAPITAL GAINS TAX RATES

The current rates of capital gains tax (CGT) are 18% to the extent that total taxable income does not exceed the basic rate band and 28% thereafter.

The government is to reduce the higher rate of CGT from 28% to 20% and the basic rate from 18% to 10%. The trust CGT rate will also reduce from 28% to 20%.

The 28% and 18% rates will continue to apply for carried interest and for chargeable gains on residential property that do not qualify for private residence relief. In addition, the 28% rate still applies for ATED related chargeable gains accruing to any person (principally companies).

These changes will take effect for disposals made on or after 6 April 2016.

The rate for disposals qualifying for Entrepreneurs' Relief (ER) remains at 10% with a lifetime limit of £10 million for each individual.

## PARKING FINES RULED NOT DEDUCTABLE

A tribunal has ruled that security firm G4S cannot reduce its profits for tax purposes by deducting parking fines.

The company, G4S Cash Solutions, tried to reduce their corporation tax bill by approximately £580,000 but the first-tier tribunal has ruled in HMRC's favour in rejecting the claim for the deduction of the fines.

The company G4S incurred a substantial amount of parking fines usually while delivering consignments of cash over the pavement. The business tried to claim these were a business expense and so could be used to reduce the company's profits for tax purposes.

The tribunal ruled G4S staff consciously and deliberately decided to break parking restrictions for commercial gain.

The ruling upholds HMRC's long standing view that fines for breaking the law cannot be used to reduce a tax bill.

HMRC's Director General of Business Tax, Jim Harra, said:

*'We've always said fines incurred for breaking the law are not tax deductible. The tribunal has now established a clear precedent for rejecting any future such claims.'*

## FARMERS AVERAGING

Changes have been made to the rules which allow farmers to average their profits for tax purposes. Under the new rules unincorporated farmers will be able to average their profits for income tax purposes over five years rather than the previous two years.

The amendment to the rules which took effect from 6 April 2016 is aimed at helping farmers with fluctuating profits better manage the *'risk and the impact of global volatility which has become an inherent feature of the agricultural industry'*.

Chancellor George Osborne said:

*'... reforms will provide farmers with additional security to plan and invest for the future, allowing them to spread profits over a longer period of time. Over 29,000 farmers can benefit from the changes, saving an average of £950 a year.'*

As well as having the new option to average tax over five years, farmers will also retain the choice to average profits over two years.

If you would like guidance on how these rules will affect you please get in touch.

## VAT FUEL SCALE CHARGES

HMRC have issued details of the updated VAT fuel scale charges which apply from the beginning of the next prescribed VAT accounting period starting on or after 1 May 2016.

VAT registered businesses use the fuel scale charges to account for VAT on private use of road fuel purchased by the business.

Please do get in touch for further advice this or other VAT matters.

## SAVINGS ALLOWANCE

A new savings allowance is available to basic and higher rate taxpayers for 2016/17. The amount available depends on the individual's circumstances:

- If any of the individual's income for the year is additional rate income then the individual's savings allowance for the year will be nil.
- If any of the individual's income for the year is higher-rate income and none of the individual's income for the year is additional rate income, the individual's savings allowance for the year is £500.
- If none of the individual's income for the year is higher rate income, the individual's savings allowance for the year is £1,000.

No tax will be payable on savings income until the new savings allowance has been used up.

In a further change, banks and building societies will no longer deduct tax at source from interest at 20%. This means that non-taxpayers will no longer need to fill out an R85 to receive bank and building society interest gross. However, companies will still need to account for 20% at source on payments of interest.

The 0% savings starting rate also remains available on the first £5,000 of taxable savings income for those with the correct split of income. This would apply where non savings income, broadly pay, trade profits and property income are no more than the personal allowance. This means that for some, the effect of the personal allowance (£11,000 for 2016/17), the £5,000 starting rate band and the new savings allowance (£1,000 for basic rate taxpayers for 2016/17) means that it may be possible to receive up to £17,000 savings income tax-free in 2016/17.

In light of the above changes please contact us if you would like to review your tax position on savings income.

## PENSIONS FREEDOM UPDATE

According to HMRC figures over 230,000 people have used the new pension freedoms introduced one year ago and accessed over £4.3 billion in pensions saving.

In April 2015, the government introduced significant pension reforms giving people the ability to access their pensions savings how and when they want. The statistics show that in the first year of these new rules being available, more than 232,000 people have accessed £4.3 billion flexibly from their pension pots.

The Economic Secretary to the Treasury, Harriett Baldwin said:

*'It's only right that people should have a choice over what they do with their money and in their first year our successful pension freedoms have already given thousands of people access and responsibility over their hard-earned savings.'*

*'We will continue to make sure that the pension freedoms work well for everyone, including through working with our partners to ensure consumers are protected and that there is simple information to help people understand their options.'*

*'The government has already taken action to ensure the new freedoms work for consumers and that they have the right information to make informed decisions.'*

*'It has announced that it will be capping early exit fees, allowing earlier access to Pension Wise guidance, and working with industry to introduce a Pensions Dashboard.'*

*'It has also announced that it is extending the popular freedoms even further, giving millions more people the right to sell their annuities if it's best for them from April 2017.'*

Since the pension flexibility rules took effect from 6 April 2015:

- 232,000 individuals have accessed their money flexibly
- People have flexibly accessed over £4.3 billion of their own money through 516,000 payments.
- In the most recent quarter, 74,000 individuals withdrew £820 million. In the previous quarter, 67,000 individuals withdrew £800 million.
- Figures are taken from information voluntarily reported to HMRC by pension scheme administrators from 6 April 2015 to 31 March 2016. It is not mandatory for scheme administrators to flag these up as pension flexibility payments until April 2016.
- HMRC statistics cover 'flexible payments', which means partial or full withdrawal of the pension pot, taking money from a flexible drawdown account, or buying a flexible annuity.

If you would like advice on the tax implications of pensions freedom please contact us.

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