NEWSLETTER FEBRUARY 2017

AUTUMN STATEMENT UPDATE

On Wednesday 23 November the Chancellor Philip Hammond presented his first, and last, Autumn Statement along with the Spending Review.

His speech and the supporting documentation set out both tax and economic measures. Some of the pertinent tax and employee welfare measures announced were:

- the government reaffirming the objectives to raise the personal allowance to £12,500 and the higher rate threshold to £50,000 by the end of this Parliament
- a reduction of the Money Purchase Annual Allowance for pensions to £4,000
- a review of ways to build on Research and Development tax relief
- tax and National Insurance advantages of salary sacrifice schemes to be removed
- anti-avoidance measures for the VAT Flat Rate Scheme including the introduction of a higher 16.5% rate for some businesses
- autumn Budgets commencing in autumn 2017
- National Living Wage to rise from £7.20 an hour to £7.50 from April 2017
- Universal Credit taper rate to be cut from 65% to 63% from April 2017.

ADVISORY FUEL RATES FOR COMPANY CARS

New company car advisory fuel rates have been published which took effect from 1 December 2016. 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 December 2016 are:

Engine size	**Petrol**
1400cc or less	11p
1401cc - 2000cc	14p
Over 2000cc	21p

Engine size	**LPG**
1400cc or less	7p

1401cc - 2000cc	9p
Over 2000cc	13p

Engine size	**Diesel**
1600cc or less	9p
1601cc - 2000cc	11p
Over 2000cc	13p

HMRC guidance states that the rates only apply when you either:

- reimburse employees for business travel in their company cars
- require employees to repay the cost of fuel used for private travel

You must not use these rates in any other circumstances.

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

‘NO EXCUSES’ FOR AUTO ENROLMENT MISTAKES SAY TPR

The Pensions Regulator is reminding employers and their advisers, that they need to comply with their auto enrolment duties or face penalties:

‘Being ill or short-staffed isn’t a good enough excuse for your clients failing to comply with their legal duties. Our latest compliance and enforcement report shows that the number of small and micro employers receiving fines has risen after tribunal judges rejected what the employers claimed were 'reasonable excuses'.

As with any other business activity, if an employer is too unwell to complete their AE duties, they’ll need to find someone else who can. Automatic enrolment is ultimately the employer’s legal responsibility, so whether it’s due to pension provider failings or illness, a judge won’t consider an excuse to be ‘reasonable’, if there’s something they or someone else could have done to remedy the situation in time.’

TPR’s latest ‘Compliance and enforcement Quarterly bulletin’ reports that instances of penalties have risen but so have the amount of employers who are ‘staging’ for auto enrolment.

They have also sent over 6,000 letters to employers reminding them that their deadline for compliance is 31 December 2016.

Please contact us if you would like any help with your duties.

MAKING TAX DIGITAL UPDATE

Over the summer HMRC published six consultation documents on Making Tax Digital. The six consultations set out detailed plans on how HMRC propose to fundamentally change the method by which taxpayers, particularly the self-employed and landlords, send information to HMRC. Two key changes proposed are:

- From April 2018, self-employed taxpayers and landlords will be required to keep their business records digitally and submit information to HMRC on a quarterly basis and submit an End of Year declaration within nine months of the end of an accounting period (accounting periods are typically 12 months long).

- HMRC will make better use of the information which they currently receive from third parties and will also require more up to date information from some third parties, such as details of bank interest. Employees and employers will see the updating of PAYE codes more regularly as HMRC use the data received from the third parties.

HMRC received over 3,000 responses to their consultations which are now closed.

The government has announced it will publish its response to the consultations in January 2017 together with provisions to implement the changes.

Meanwhile HMRC's Tax Assurance Commissioner Jim Harra has written to the Financial Times stating HMRC's point of view that *'Digital tax should not be a burden to businesses'* in a move to allay the concerns that changes will place an additional burden on businesses and their agents.

We will keep you informed of developments.

SCOTTISH BUDGET

On 15 December, Finance Secretary Derek Mackay delivered the 2017/18 Scottish Draft Budget setting out the Scottish Government's financial and tax plans.

SCOTTISH RATE OF INCOME TAX

On 6 April 2016, a fundamental change was made to the taxation system for Scottish resident individuals. The main UK rates of income tax were reduced by 10p for Scottish taxpayers and in its place the Scottish Rate of Income Tax (SRIT) was applied equally to all Scottish taxpayers. As the SRIT was set at 10p, the overall income tax rates are currently the same as in the rest of the UK. So, those who are resident in Scotland are currently liable to two types of income tax and pay SRIT at 10% on most mainstream sources of income such as PAYE income, pensions, rental profit and profits from self-employment.

The SRIT does not apply to income from savings such as building society interest or dividends. These rates are the same for all taxpayers across the UK.

The SRIT is in place for one transitional year and will no longer apply from 6 April 2017 as the Scottish Government have exercised their powers to set the tax rates and bands (excluding the personal allowance) on non-savings, non-dividend income of Scottish taxpayers.

TAX BANDS 2017/18

On 15 December, Finance Secretary Derek Mackay delivered the 2017/18 Scottish Draft Budget setting out the Scottish Government's financial and tax plans.

For 2017/18, the Scottish Government is proposing to freeze the Scottish basic rate of income tax at 20% and also to freeze the Scottish higher and Scottish additional rates at 40% and 45% respectively. In addition, the higher rate income tax threshold will increase by inflation to £43,430 in 2017/18. The Scottish Government also confirmed that the higher rate income tax threshold will increase by a maximum of inflation in all future years of this Parliament.

The Scottish Government has therefore not followed the UK Government's plans to extend the threshold for paying the higher rate level of income tax of 40% from £43,000 to £45,000 for 2017/18. This means that a Scottish higher rate taxpayer will pay £314 more tax in 2017/18 than a UK higher rate taxpayer, being £1,570 at the marginal rate of 20% (40% - 20%).

APPRENTICESHIP LEVY

The Apprenticeship Levy is being introduced from 6 April 2017 and will be payable by large employers. The Levy will be 0.5% of the employer's pay bill, which is explained later in this article, but there is an annual allowance of £15,000.The allowance will be given on a pro-rata basis throughout the tax year.

The recent HMRC guidance confirms employers will need to report their Apprenticeship Levy liability each month:

- from the start of the tax year if:

  - their annual pay bill (including any connected companies or charities) in the previous tax year was more than £3 million

- they believe their annual pay bill (including any connected companies or charities) for the tax year will be more than £3 million

- if an employer's annual pay bill (including any connected companies or charities) unexpectedly increases to more than £3 million. In which case the employer will need to start reporting when this happens.

An employer's annual pay bill is all payments to employees that are subject to employer Class 1 secondary NICs. Broadly wages but excluding benefits and expenses. HMRC have confirmed that employers must include payments to employees for whom there are no employer NICs including:

- all employees earning below the NIC lower earnings and secondary thresholds
- employees under the age of 21
- apprentices under the age of 25

The Apprenticeship Levy will need to be reported each month on the Employer Payment Summary (known as the EPS) and should include the following:

- the amount of the annual Apprenticeship Levy allowance which has been allocated to that PAYE scheme
- the amount of Apprenticeship Levy you owe to date in the current tax year

HMRC have confirmed that it is not necessary to report Apprenticeship Levy if the employer has not had to pay it in the current tax year.

If you would like advice on the Apprenticeship Levy or other payroll matters please contact us.

PERSONAL TAX ACCOUNTS 'FIRST BIRTHDAY'

The government are celebrating the 'first birthday' of their award winning Personal Tax Account which recently won Digital Project of the Year at the annual UK IT Industry Awards

HMRC have announced that in its first year, the Personal Tax Account has attracted more than seven million users and there have been millions of transactions including:

- 1.6 million Income Tax repayments, worth more than £800 million
- 1 million tax credit renewals
- 100,000 people checking or updating their company car details
- 1.6 million people checking their tax estimate
- 2 million people checking their state pensions.

The press release also states that the Personal Tax Account is designed to be one stop shop for all customer interactions with HMRC and taxpayers using it can:

- check their state pension
- complete and return a Self Assessment tax return
- update tax credits circumstances as they change throughout the year to prevent under and overpayments
- claim an Income Tax refund that will be paid straight into their bank account
- check and update their Marriage Allowance.

If you would like advice on your personal tax affairs please contact us.

NATIONAL INSURANCE CHANGES – WINNERS AND LOSERS

Tax campaigners have warned that the abolition of Class 2 National Insurance contributions from April 2018 could result in the lowest earners among the self employed being hardest hit.

Class 2 NICs are flat-rate weekly contributions paid by the self-employed to gain access to contributory benefits. The self-employed also pay Class 4 NICs on profits above the Lower Profits Limit. Class 4 NICs do not currently give access to contributory benefits. At Autumn Statement 2016 the Chancellor confirmed that Class 2 contributions would be abolished from 6 April 2018.

At present, self-employed earners whose profits exceed £5,965 a year, the small profits threshold (SPT), are required to pay Class 2 NI contributions at £2.85 a week. These contributions then count towards their state retirement pension and entitlement to certain other contributory benefits. If their profits fall below the SPT, they have the option to make voluntary Class 2 payments.

When Class 2 is abolished, payment of Class 4 NI contributions will count towards state benefits. In order to protect some people on low incomes, Class 4 contributions will not be payable until annual profits reach £8,060. However, as long as profits exceed the SPT, the self-employed will be given Class 4 credits, so they will be treated as making contributions even though none was actually paid.

A point to note though is that, unlike Class 2, Class 4 NI cannot be paid on a voluntary basis meaning that the only way that self-employed people on profits below the Class 4 threshold will be able to build up a contribution record, if they did not obtain NI credits through receipt of other benefits, eg tax credits, child benefit or Universal Credit, will be by paying Class 3 voluntary contributions at £14.10 a week.

Anthony Thomas, Chairman of the Low Income Tax Reform Group commented:

'Some parts of these proposals are good news for self-employed workers on low earnings, but by no means all. Those with profits between £5,965 and £8,060 will be better off because they will pay no NI but be credited with contributions. Our concern is for those with lower earnings than £5,965 who would have to pay voluntary Class 3 contributions in the future to protect their benefits entitlement if they did not obtain NI credits through receipt of other benefits, for example tax credits, child benefit or Universal Credit. Class 3 contributions will cost almost five times the amount they are paying now (£14.10 per week compared to £2.85 per week) and may mean the cost is unaffordable, leading them to rely more on means-tested benefits in the future.'

CHARITY FINES

An investigation by the Information Commissioner's Office (ICO) has revealed that two national charities, the RSPCA and the British Heart Foundation, secretly screened millions of their donors so they could target them for more money. The ICO said that this practice breached the Data Protection Act as the charities failed to handle donors' personal data in accordance with the legislation.

The charities also traced and targeted new or lapsed donors by piecing together personal information which was obtained from other sources. In addition, they traded data with other charities to create a pool of donor data which was available for sale. As the donors were not informed of these practices, they could not give their consent or object.

The investigation was one of a number by the ICO into the fundraising activities of charities sparked by media reports about pressure on donors to contribute. The Information Commissioner, Elizabeth Denham, fined the RSPCA £25,000 and the British Heart Foundation £18,000.

The ICO can take action, including penalties of up to £500,000, against organisations and individuals that collect, use and keep personal data. Anyone who processes personal information must comply with the eight principles of the Data Protection Act which make sure personal data is:

1. fairly and lawfully processed
2. processed for limited purposes
3. adequate, relevant and not excessive
4. accurate and up to date
5. not kept for longer than is necessary
6. processed in line with an individual's rights

7. secure and

8. not transferred to other countries without adequate protection.

LATEST STATISTICS SHOW UNEMPLOYMENT AT 4.8%

The government has announced:

‘labour market has finished a record breaking year with unemployment down by over 100,000 people and the rate running at 4.8%’.

Other statistics include:

- there continues to be 31.8 million people in work, up by 2.7 million since 2010.
- the number of women in work is at a record high of almost 15 million
- long-term unemployment has fallen to 418,000 and is the lowest it has been since 2008, down 31,000 on the quarter
- youth unemployment is 587,000, a fall of 350,000 since 2010
- 41% of the 420,000 people now receiving Universal Cred
- it are in work.

Secretary of State for Work and Pensions, Damian Green said:

‘This year will be remembered as one when so many records were made – employment has consistently been running at an all-time high with more women, older workers and ethnic minority groups in work than ever before.

Encouragingly, this good news was extended right across the UK.

But there is more to do to help people of all backgrounds and abilities into work, which will remain a priority as we press ahead with our welfare reforms that are ensuring it always pays to be in work.’

Rachel Smith, CBI Principal Labour Market Adviser, said:

‘We see a mixed picture from the labour market over the last three months, with employment levels remaining more or less the same and unemployment seeing a slight drop.’

‘Although wage growth has gone up somewhat, so has inflation, hitting workers’ pay packets in real terms. Boosting productivity in every region and nation of the UK will be essential if firms are to further raise wages sustainably for their employees.’

MAKING TAX DIGITAL

The government published their responses to the six consultations on making tax digital (MTD).

In response to the consultations the government have decided the following:

- businesses will be able to continue to use spreadsheets for record keeping, but they must ensure that their spreadsheet meets the necessary requirements of Making Tax Digital for Business (MTDfB). This is likely to involve combining the spreadsheet with software
- businesses eligible for three line accounts will be able to submit a quarterly update with only three lines of data (income, expenses and profit)
- free software will be available to businesses with the most straightforward affairs
- the requirement to keep digital records does not mean that you have to make and store invoices and receipts digitally
- activity at the end of the year must be concluded and sent either by ten months after the last day of the period of account or 31 January, whichever of these is soonest

- charities (but not their trading subsidiaries) will not need to keep digital records
- for partnerships with a turnover above £10 million, MTDfB is deferred until 2020 due to the complexity of their tax affairs.

The MTD consultations also specifically explored the appropriate level of the initial exemption and deferral for the self-employed, landlords and businesses. Given the range of views expressed on this matter from respondents to the consultation, the government has decided to take more time to consider these issues alongside the fiscal impacts. Final decisions will be made before the law is finalised later this year.

In addition, HMRC will begin piloting digital record keeping and quarterly updates for a full year from April 2017, building up to working with hundreds of thousands of businesses and landlords before rolling the services out more widely. The stated aim of this pilot is to ensure the software is user-friendly and give individuals and businesses time to prepare and adapt. Piloting of the system had been recommended by the Treasury Select Committee.

SELECT COMMITTEE'S FINDINGS

The Treasury Select Committee has urged HMRC to implement a series of wide-ranging pilots in order to better test the government's plans for the new digital tax initiative, Making Tax Digital (MTD), before it becomes compulsory for the majority of taxpayers.

The report found that, while the government had already carried out trials of the new initiative, those businesses which took part had done so at HMRC's invitation.

The Committee stated that comprehensive pilots of MTD are 'essential', and that these need to be designed to collect information over the entire reporting cycle.

It also suggested that an evaluation of these pilots should be carried out before the full implementation of the scheme which is expected, for all but the smallest businesses to be implemented from April 2018 onwards.

Andrew Tyrie MP, Chairman of the Committee, said:

'Without sufficient care, MTD could be a disaster. Implemented carefully, with long transitional arrangements where necessary, and, having drawn on information from fully inclusive pilots, MTD could be designed for the benefit both of the economy and of the tax yield. But with a rushed introduction, it will benefit neither.'

MTDfB will still be phased in from April 2018. We will keep you informed of developments.

PAY THE NMW – NO EXCUSES

The government has revealed ten of the most bizarre excuses used by unscrupulous business owners who have been found to have underpaid workers the NMW.

These employers used excuses such as '*only wanting to pay staff when there are customers to serve and believing it was acceptable to underpay workers until they had 'proved' themselves'*.

The government has launched an awareness campaign to encourage workers to check their pay to ensure they are receiving at least the statutory minimum ahead of the NMW and NLW increases on 1 April 2017.

Employers need to ensure they are paying their employees at least the NMW and NLW.

	Rate from 1 October 2016	**Rate from 1 April 2017**
NLW for workers aged 25 and over (introduced and applies from 1 April 2016)	£7.20	£7.50
the main rate for workers aged 21-24	£6.95	£7.05
the 18-20 rate	£5.55	£5.60
the 16-17 rate for workers above school leaving age but under 18	£4.00	£4.05
the apprentice rate, for apprentices under 19 or 19 or over and in the first year of their apprenticeship	£3.40	£3.50

This will be the second increase in six months for the NMW rates. Going forward the NMW and NLW rates will both be reviewed annually in April.

In a recent article in the Employer Bulletin, HMRC cite common errors:

- not paying the right rate, perhaps missing an employee's birthday,
- making deductions from wages which reduce the employee's pay below the NMW/NLW rate,
- including top ups to pay that do not qualify for NMW/NLW,
- failure to classify workers correctly, so treating them as interns volunteers or self employed and
- failure to include all the time a worker is working, for example time spent shutting up shop or waiting to clear security.

WHAT ARE THE PENALTIES FOR NON-COMPLIANCE?

The penalties imposed on employers that are in breach of the minimum wage legislation are 200% of arrears owed to workers. The maximum penalty is £20,000 per worker. The penalty is reduced by 50% if the unpaid wages and the penalty are paid within 14 days. HMRC also name and shame employers who are penalised.

If you would like help with payroll issues please contact us.

LANDLORDS TO RECEIVE LESS TAX RELIEF ON INTEREST

In a change that will impact residential landlords, the amount of income tax relief available on residential property finance costs will be restricted to the basic rate of income tax. This change will mean that landlords will no longer be able to deduct all of their finance costs from their property income. They will instead receive a basic rate reduction from their income tax liability for their finance costs.

The restriction in the relief will be phased in over a four year period as follows:

- in 2017/18, the deduction from property income will be restricted to 75% of finance costs, with the remaining 25% being available as a basic rate tax reduction;
- in 2018/19, 50% finance costs deduction and 50% given as a basic rate tax reduction;
- in 2019/20, 25% finance costs deduction and 75% given as a basic rate tax reduction;
- from 2020/21, all financing costs incurred by a landlord will be given as a basic rate tax reduction.

These rules do not apply to residential properties held in companies.

In addition rules may further restrict the relief which is due where the individual's property income or total income is less than the amount on which basic rate relief is due. The computation is complex so please do get in touch if you would like us to review your position.

MORE SILLY TAXPAYER EXCUSES FROM HMRC

HMRC have released more unusual excuses from taxpayers who failed to complete their self assessment tax return on time. These include:

1. *'My tax return was on my yacht…which caught fire'*
2. *'A wasp in my car caused me to have an accident and my tax return, which was inside, was destroyed'*
3. *'My wife helps me with my tax return, but she had a headache for ten days'*
4. *'My dog ate my tax return…and all of the reminders'*

5. *'I couldn't complete my tax return, because my husband left me and took our accountant with him. I am currently trying to find a new accountant'*

6. *'My child scribbled all over the tax return, so I wasn't able to send it back'*

7. *'I work for myself, but a colleague borrowed my tax return to photocopy it and lost it'*

8. *'My husband told me the deadline was the 31 March'*

9. *'My internet connection failed'*

10. *'The postman doesn't deliver to my house'*

With the self assessment submission deadline of 31 January now past and an automatic penalty of £100 for failing to submit your return on time, please contact us if you need help bringing your affairs up to date.

PENSIONS AUTO ENROLMENT

The Department for Work and Pensions has confirmed the thresholds for pensions automatic enrolment for 2017/18.

The main qualifying threshold or 'trigger' for employees to be automatically enrolled will be maintained at £10,000 per annum. The lower limit of the qualifying earning band and will be £5,876 and the upper limit £45,000.

The written statement also includes:

'Automatic enrolment has been a great success to date with almost 7 million people enrolled by more than 293,000 employers. It will give around 11 million people the opportunity to save into a workplace pension and we expect this to lead to around 10 million people newly saving or saving more by 2018, generating around £17 billion a year more in workplace pension saving by 2019/20.'

With over a million micro (1 - 4 employees) and small (5 - 49 employees) employers reaching their staging date for auto enrolment in the last quarter of 2016/17 and throughout 2017/18 it is important to ensure employers comply with their obligations. The Pensions Regulator has confirmed the exceptions which apply to employers which can be found at on their website (see the TPR link below).

Please contact us if you would like help with auto enrolment compliance or to determine whether or not your business is exempt from auto enrolment.

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