

## Private Client: Budget 2017

Following the announcement that the Spring Budget was to change to a later date in the year, there was uncertainty as to whether the Chancellor would take the opportunity to make significant changes which could impact on Private Clients. Certain individuals, such as the self-employed, will certainly feel the effect of the reform to National Insurance Contributions, whilst investors may feel some effects from the reduced Dividend Allowance, especially when coupled with the changes announced in the March 2015 Budget. The impact of these, and other notable changes, are included below:

### Overview

The main highlights include the introduction of a flat rate for Class 4 National Insurance contributions, reduction to the dividend allowance, increased thresholds for the cash basis used by unincorporated businesses and Making Tax Digital, as well as a reminder of the changes announced at the last budget, effective from 6 April 2017. There are tax savings available if you take care to structure your affairs correctly.

### Personal Allowances and Thresholds

The personal allowance will be increased to £11,500 from 6 April 2017. This is only available in full to those individuals with income of less than £100,000.

The higher rate tax threshold will be £33,500 from 6 April 2017. The NIC upper threshold is aligned with the higher rate tax threshold.

This means that an individual can earn up to £45,000 from 6 April 2017 before they pay any higher rate income tax.

Planning points:

- Married couples and civil partners should try and equalise their incomes to ensure that personal allowances and basic rate bands are fully utilised for each party.
- Individuals earning over £100,000 will have their personal allowances restricted on a 2:1 basis. Individuals in the bracket of income between £100,000 and £122,000 for 2016 or the bracket of income between £100,000 and £123,000 for 2017 will find that the income falling into this £22,000 or £23,000 bracket is taxed at an effective rate of 60%. Individuals should try and reduce their income below this amount by perhaps making a contribution into a pension or making gifts to charity under gift aid.

### Property and Trading Allowance

As a reminder, at the last Budget in March 2016, it was announced that a new property and trading allowance will be introduced from 6 April 2017. Those with income up to £1,000 from property or trading will not be subject to tax on this

amount. Those with income above this amount will be able to deduct £1,000 from the income in some circumstances.

Planning point:

- Anyone running a very small business, such as eBay trading, can now benefit from this new allowance, without the inconvenience of submitting formal accounts.

### Capital Gains Tax

Since 6 April 2016, the tax rate of chargeable gains on any asset other than residential property or carried interest, is 20% for a higher rate taxpayer and 10% for basic rate taxpayers. These rates do not apply to ATED companies.

Planning point:

- Married couples and civil partners should consider transferring any assets standing at a gain to the lower income spouse, to use the lower rate of capital gains tax.

### Money Purchase Annual Allowance "MPAA"

A money purchase pension is a registered pension, which can be flexibly accessed under the new pensions freedoms. Once a pension has been withdrawn from the Scheme, an annual amount of £10,000 can be reinvested and tax relief claimed. From 6 April 2017, this annual allowance is reduced to £4,000.

### National Insurance Contributions "NICs"

Following the announcement to abolish Class 2 NICs from April 2018, reforms will be made to Class 4 contributions, introducing a new flat rate of 10%. These changes will also apply from April 2018 and the flat rate will increase to 11% from April 2019.

Individuals with annual profits in 2019/2020 of more than £16,250 will pay more class 4 NICs. However, after taking into account the increases to personal allowances, the self-employed should only suffer more income tax and NICs where their annual profits in 2019/2020 exceed £32,000.

## Reduction in the Dividend Allowance

Following the announcement in the 2015 Summer budget, that there would be reforms to the way in which dividends are taxed, a “dividend allowance” was introduced for the first £5,000 of dividends received by an individual.

Effective from April 2018, the dividend allowance will reduce from £5,000 to £2,000.

## Increase to cash basis threshold for unincorporated businesses

From April 2017, self-employed, partnerships and landlords can opt to use the cash basis where their trading income is currently £150,000 or less. Once their trading income reaches £300,000, the cash basis can no longer be used.

Planning point:

- Cash basis is a simplified version of accounting but it does not always have a beneficial effect. It would be prudent to check if this were tax efficient for you personally before changing to this basis.

## Making Tax Digital

Making Tax Digital was to be introduced for all businesses, self-employed and landlords with income in excess of £10,000 from April 2018. This start date will only be retained for those with turnover in excess of the VAT threshold, (£85,000 from April 2017). If turnover is less than this, then the start date will be delayed for one year until April 2019. VAT registered businesses will also need to keep digital records and quarterly report from this date. The start date for digitally reporting for corporation tax is April 2020.

## Forms of Remuneration

Employees can be remunerated in different ways via salary and benefits, and these different forms of remuneration have different tax regimes.

The Government is therefore consulting on three particular aspects, benefits in kind, accommodation and employee expenses, to ensure that these are taxed in a fair and coherent fashion. Further information will follow once the consultation is finalised.

## NS&I

A new NS&I bond is to be introduced from April 2017. The bond will be a term of three years and pay interest of 2.2%. The investment limit is £3,000

Planning point:

- These are available for everyone over 16 years old, so consider for spouses, civil partners, children and grandchildren.

## Image Rights

Often sports stars (such as footballers, athletes, etc) are paid for their image rights. Typically, where these individuals are non UK domicile, the payment is made to a non-UK company. The Government intends to look into the rules surrounding the tax treatment of these payments and HMRC will publish guidelines to employers who make such payments.

## ISAs

A new Lifetime ISA is being introduced from 6 April 2017. This will be available to those under 40 years old and they will be able to contribute up to £4,000 per annum until age 50. The Government will add a 25% bonus to the ISA each year. The funds can be used to buy a home after 12 months, or retained and drawn tax free from age 60.

Lifetime contributions can be made up to £128,000, resulting in a bonus of up to £32,000.

If funds are withdrawn before age 60, and not used to purchase a home, the individual will lose the 25% bonus on that amount, and they will have to pay a 5% charge.

Any individual who already has a help to buy ISA can merge this into a Lifetime ISA from 6 April 2017.

The overall ISA limit will be increased to £20,000 from 6 April 2017.

Planning point:

- individuals could open Lifetime ISAs for their adult children and grandchildren, to help fund the purchase of their first home, with a 25% cash incentive from the Government.

### Start the conversation today

Contact your BHP account manager or one of our tax specialists.

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