

## Professional Practices: Budget 2017

There was some growth in the UK economy during 2016, and employment has reached a record high. The 2017 Budget claims to “put economic stability first” and the Office for Budget Responsibility (OBR) now forecasts that the UK economy will grow by 2% in 2017, and borrowing is forecast to be reduced by nearly three quarters by 2016-17. This was the backdrop to Mr Hammond’s first Budget, and there were some Budget measures which will impact on this sector. These are set out below.

### Overview

This year’s Budget did not introduce many changes affecting professional practices, and Making Tax Digital may have the biggest impact.

### 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 contributing into a pension or making gifts to charity under gift aid.

### National Insurance

From 6 April 2018, class 2 National Insurance contributions are abolished, but class 4 National Insurance contributions will increase to 10%, with a further increase to 11% from 6 April 2019.

### Dividend tax

From 6 April 2016, dividend tax rates were increased and a new tax free dividend allowance of £5,000 was introduced. From 6 April 2018, this tax free allowance will reduce to £2,000. This will affect individuals who draw a dividend from their own limited company as well as individuals with substantial private investments.

Planning point:

- Individuals may wish to revisit their remuneration planning or investment strategy to check the monetary effects of this.

### 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 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.

### Making Tax Digital (MTD)

Despite scathing opposition from most quarters, the MTD project continues unabated. Whilst a lot of the details about the requirements of MTD are still unknown, broadly, unincorporated businesses and landlords with income over the VAT threshold will have to start retaining records digitally and filing returns quarterly from April 2018. The quarterly figures do not have to have tax or accounts adjustments but you can choose to pay tax quarterly based on these figures if you choose.

This represents a change to the previously announced rules and a deferral for those unincorporated business and landlords with income of between £10,000 and the VAT registration limit. The introduction of MTD for businesses will now be delayed for a year until April 2019, when VAT registered businesses will also need to start

keeping records digitally. Businesses reporting under Corporation Tax will be brought within the regime in April 2020.

### Cash Basis

In an effort to simplify the tax system, a new cash basis of accounting will be brought in from 6 April 2017 for self-employed, partnerships and landlords with income up to £150k. In simple terms this means that you only pay tax on the income you have received and similarly, claim a deduction for expenses you have paid. However, the interest expense will be restricted as for other businesses and if you incur expenses which you take time to pay for, you may end up worse off. Some types of expenses will also be disallowable, for example, capital costs. The cash basis will be deemed to automatically apply unless the tax payer opts out.

Planning point:

- To be sure that you are adopting the right basis you may have to calculate profits under both the cash and accruals basis so the end result may be far from simple!

### Partnership Taxation

The Government has consulted on clarifying and improving the taxation of partnerships, and the response document will be published shortly. The Government intends to legislate on this in the 2017-18 Finance Bill.

### 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.

### 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:

- Helping children or grandchildren fund Lifetime ISAs can help them with a deposit for their first home with a 25% uplift from the Government

### Helping people back to work

The Government has announced an investment of £5 million to increase the number of “returnships”, helping people back into employment after a career break.

#### Start the conversation today

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

**Mike Jackson**  
mike.jackson@bhp.co.uk

**Terri Pierpoint**  
terri.pierpoint@bhp.co.uk

Sheffield / Leeds / Cleckheaton / Chesterfield / York

www.bhp.co.uk    0333 123 7171    @bhpaccountants

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