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Chartered Accountants  
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## Budget breakfast briefing November 23rd 2017



A DFK UKI firm  
of the year



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**Speakers today are:**

**Geoff Fraser**

**Joe Wilson**

**David Sumner**

**ANNOUNCEMENT** 

# Report on the 22nd November 2017 Autumn Budget Geoff Fraser – Head of Taxation





## Income Tax - Rates and Allowances

	2018/19	(2017/18)	
<b>Increase</b>			
Personal Allowance	£11,850	(£11,500)	£350

It continues to be the stated intention to raise the personal allowances to £12,500 by the end of this parliament.

\* In addition the personal allowance is reduced by £1 for every £2 of income over £100,000 (£100,000). Effective tax rate between £100,000 and £123,700 (£123,000) of 60%.



## Income Tax - Rates and Allowances cont'd

**Married Allowance** £1,185 ( £1,150) Effectively 10% of an unused personal allowance can be transferred to their spouse or civil partner provided they are not liable to tax at the higher or additional rate.

**Married Couples Allowance** For those born before 6 April 1935 £8,695 maximum £3,360 minimum with income limit abatement.

**Savings Income** No deduction of tax at source on savings income from 6 April 2016 . New £1,000 tax free savings allowance for basic rate tax payers (£500 for higher rate and £0 for additional rate payers).

In addition to £5,000 0% savings band for lower income individuals.







## Income Tax - Rates and Allowances cont'd

<b>Basic Rate</b>	20% on income up to £34,500 (£33,500)
<b>Higher Rate</b>	40% on income up to £150,000 (£150,000) <b>No change</b>
<b>Additional Rate</b>	45% on income over £150,000 (£150,000) <b>No Change</b>
<b>Rate of tax on dividends</b>	7.5%/32.5%/38.1% <b>No Change</b>

The £5,000 tax free dividend allowance will reduce to £2,000 from April 2018.

**Trust Rate** 45% **No Change**

**Extraction of profits from a corporate entity by way of dividend continues to be the most tax efficient.**



# BONUS V DIVIDEND

PROFITS		100,000	PROFITS		100,000
SALARY		-8,400	SALARY		-88,892
CORPORATION TAX		-17,404	EMPLOYER NIC		-11,108
DISTRIBUTION		74,196			-
<u>TAX</u>			<u>TAX</u>		
11,850 @ 0%		-	11,850 @ 0%		-
2,000 @ 0%		-	34,500 @ 20%		6,900
32,500 @ 7.5%		2,437	42,542 @ 40%		17,017
36,246 @ 32.5%		11,780			
		£14,217			£23,917
NIC		-	NIC		£5,240
NET CASH		£68,379			£59,735



## National Insurance

### 2018/19 Basic Rates and Thresholds – Employment Income (2017/18 in brackets)

Lower earnings limit (0% and no contribution below limit) £116 per week (£113)  
£502 per month / £6,030 per annum (£490 / £5,880)

Primary threshold (0% but with contribution) £162 per week (£157)  
£702 per month / £8,424 per annum (£680 / £8,164)

Upper earnings threshold 12% (12% on income above primary threshold) £892  
per week (£866) £3,862 per month / £46,350 per annum (£3,584 / £45,000)

2% (2%) on all income above upper earnings threshold





## National Insurance cont'd

### Employers

Secondary earnings threshold 0% (0%) on earnings up to the secondary earnings threshold

£162 per week (£157 per week) and 13.8% (13.8%) on earnings above the secondary earnings threshold

### Employment Allowance

From 6 April 2017 an allowance of **up to £3,000 (£3,000)** can be claimed to offset the employers national insurance liability. Anti avoidance rules apply. – **No Change**

### Self Employed

#### Class 4

9% (9%) on earnings between £46,350 (£42,385) and £8,424 (£8,164) and 2% (2%) on profits in excess of the upper limit.

#### Class 2

£2.95 per week (£2.85). Now to be abolished from April 2019.

## Apprenticeship Levy



- From 6 April 2017
- 0.5% of employer's pay bill
- Report liability each month if:
- Annual wages in previous tax year was more than £3m
- Employer believes wage bill in current tax year will be greater than £3m
- Wages = all payments liable to Class 1 secondary NIC including earnings below threshold, employees under 21 and apprentices under 25

## Rental Property Changes



### **Rent a room relief**

Was increased to £7,500 from 6 April 2016 and remains unchanged

### **Wear & Tear Allowance**

This was abolished from 6 April 2016 and new replacement basis was introduced for all residential lettings including unfurnished

### **Restriction of finance cost relief for individual landlords**

Relief for finance costs on residential properties to be reduced to basic rate only. Phased in from 6 April 2017, as below.

### **Mileage Allowance**

Claims allowed for mileage at fixed profit car scheme rates

### **ATED**

The threshold for the annual tax on enveloped dwelling was reduced to £500,000 from 1 April 2016 and the annual charges have again been increased.



## Restriction of finance cost relief for individual landlords

	2016/17	2017/18	2018/19	2019/20	2020/21
Rental Inc	10,000	10,000	10,000	10,000	10,000
Finance Costs	<u>(8,000)</u>	<u>(6,000)</u>	<u>(4,000)</u>	<u>(2,000)</u>	<u>(-)</u>
	<u>£2,000</u>	<u>£4,000</u>	<u>£6,000</u>	<u>£8,000</u>	<u>£10,000</u>
Tax at 40%	800	1,600	2,400	3,200	4,000
BR Restriction	-	(400)	(800)	(1,200)	(1,600)
Tax Liability	<u>£800</u>	<u>£1,200</u>	<u>£1,600</u>	<u>£2,000</u>	<u>£2,400</u>

## Stamp Duty Land Tax

### Residential Property Rates of SDLT:

£0 - £125,000	– 0%
£125,000 - £250,000	– 2%
£250,000 - £925,000	– 5%
£925,000 - £1,500,000	– 10%
Over £1,500,000	– 12%

(For non-residential the starting point is £150,000 and then 2% to £250,000 and 5% on excess)



## Stamp Duty Land Tax on additional residential properties

Threshold	Existing	Additional Property
£0 -£125k	0%	3%
£125k - £250k	2%	5%
£250k - £925k	5%	8%
£925k - £1,5m	10%	13%
£1.5m +	12%	15%



**Minor amendments were made in the budget relating primarily to Divorce and Court of Protection issues**



## Stamp Duty Land Tax Relief for first time buyers

The Budget announced a relief from Stamp Duty Land Tax for first time buyers with immediate effect. Some of the key points are:

- £300,000 or less – No SDLT
- More than £300,000 but not more than £500,000 – 5% on excess over £300,000
- Single dwelling
- All purchasers must be individuals
- All purchasers must be first time buyers
- Must intend to occupy as their only or main residence





## Corporation Tax

There was no change made to the current rate of Corporation Tax nor the proposed change in 2020

Since 1 April 2017     19%  
(to 31 March 2020)

From 1 April 2020     17%

No change to rate of tax on loans to participators of 32.5%

Changes to loss relief rules on carried forward losses for losses arising on or after 1 April 2017 are now contained in the 2017-19 Finance Bill

Announced that indexation on chargeable gains made by companies will be frozen at December 2017



## Capital Allowances Key Issues

- Annual investment allowance remains at £200,000 (No change since 1 January 2016,
- Integral features and fixtures in commercial property, the purchase document **MUST** deal with capital allowances.
- Writing down allowances are currently at 18% and 8% per annum.

**Talk to us about the purchases of commercial properties  
BEFORE exchange**

## Capital Allowances cont'd

Purchase Cost    £400,000

Qualifying Costs    @ 15% = £60,000

Sale Proceeds    £600,000

Corporation Tax Relief on capital allowances @ 19% = £11,400

Corporation Tax on chargeable gain @ 19% = £38,000

Gain made £200,000 and net tax paid £26,600 = 13.3%!!



## VAT

The registration threshold has been 'maintained' at £85,000 for two further years with effect from 1 April 2018. Consultation will be undertaken on the threshold.

Similarly the de-registration threshold has been 'maintained' at £83,000

Extension of joint and several liability on online marketplace and displaying VAT numbers online

## Capital gains tax

Rate of capital gains tax on non-business disposals 20%/10% (28%/18%)\*

\* But the 28%/18% rates continue to apply for residential property

Rate of capital gains tax – Entrepreneurs relief 10%\*\* (10%)      No change

\*\* This rate applies to lifetime qualifying gains of £10m. Also now available to 'long-term investors' Also consulting on 5% de-minimus for raising funds.

Annual capital gains tax allowance

- for individuals      £11,700 (£11,300)
- for trusts      £5,850 (£5,650)

The 30 day payment window for gains on residential property disposals has been deferred until April 2020

\* Rates of capital gains tax are linked to marginal rate of income tax.

**Speak to us about advanced planning to ensure efficient use of tax rates and exemptions.**



## Inheritance Tax

Nil Rate IHT Band until 5 April 2021 £325,000

Additional Nil-Rate Band where residence is involved\*:

From 1 April 2017 £100,000

From 1 April 2018 £125,000

From 1 April 2019 £150,000

From 1 April 2020 £175,000

Tapered by £1 for every £2 if estate greater than £2m.

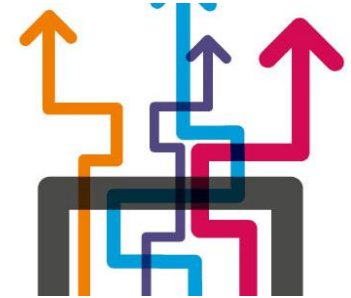
Special Downsizing Relief rules introduced

**Don't forget and always protect reliefs that are available!**



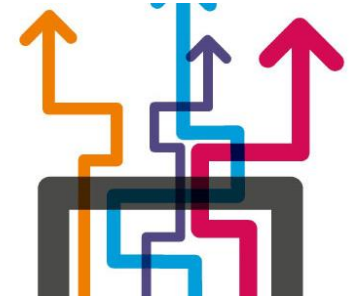
## Disguised Remuneration/Tax Avoidance

- The rules for disguised remuneration are to be substantially enhanced
- In particular charge on loans outstanding at April 2019
- Can settle but deadline is September 2018
- Extending the requirement to notify offshore structures
- Consultation regarding making public sector contracts conditional on tax compliance
- Deduction of tax at source on royalties payable to tax havens
- Review profit fragmentation rules



## Making Tax Digital

- No business will be mandated to use MTD until April 2019
- The scope of MTD will not be extended until the system is shown to work and not before April 2020
- Businesses which are not exempt must keep digital records but only for VAT purposes
- The penalty regime will be reformed to a points based system
- Live pilot in March 2018



## Making Tax Digital (Cont'd)

- Businesses start of first accounting period beginning after 5 April 2019
- For 30 April year end => 1 May 2019
- Landlords => 6 April 2019
- Smaller businesses (below VAT Threshold) => Not before April 2020 and can effectively choose when to move!

## Other Measures

- Termination payments – with effect from April 2018 taxation of payments in lieu of notice
- Termination payments withdrawal of foreign service relief
- NIC on termination payments in excess of £30,000 now deferred until April 2019
- Consultation on the extension of the public sector intermediaries rules to private sector
- Disincorporation relief not to be extended beyond March 2018
- Various charges, many minor, in respect of EIS and VCT investments
- Reform substantial shareholdings exemption
- CT deduction contributions to grass root sports
- Restriction of corporate interest expense

# Budget Report





# Research & Development (R&D) tax relief

## Joe Wilson – Tax Senior





## R&D tax relief – what is it?

- A corporation tax relief, to reward companies who undertake innovative scientific/technological work.
- R&D relief will reduce a company's corporation tax bill and in some cases could result in a tax repayment in the form of a tax credit.
- This is a form of relief HMRC are encouraging companies who undertake qualifying activity to claim for.
- The deadline for a claim is two years from the end of the accounting period.
- The R&D claim is made through the corporation tax return for the relevant period.



## Qualifying R&D projects

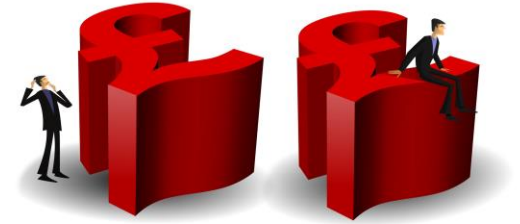
- This relief is not just open to ‘white coat’ scientific research.
- This relief is open to any company seeking to make an advance in science or technology.
- HMRC mention that this relief can extend from software developments to developing new construction techniques.
- R&D is not designed for companies seeking to match competitors or be commercially innovative.
- To qualify it must be shown that the work brings an overall scientific/technological advance



## Points to address in the claim process

HMRC expect to see the following points addressed in any claim:

1. What is the proposed activity the company plans to undertake?
2. What is the scientific/technological advance?
3. What scientific/technological uncertainties were encountered?
4. How and when were these uncertainties overcome?
5. Why wasn't the knowledge being sought readily deducible by a competent individual?



## Qualifying R&D expenditure

- Employment Costs
- Consumables fully used in the R&D process
- Power and water costs (though business rates, telecommunication and rental costs do not qualify).
- Software costs consumed in the process.
- Payments made to sub-contractors (65% is eligible).
- Costs incurred in the construction of a prototype.



## How R&D relief is calculated

- Rate of relief depends on whether the company is classified as a small medium enterprise (SME).
- To be an SME, staff headcount must be under 500 and turnover must be less than €100m or the balance sheet total must be under €86m.
- If you qualify as an SME then an additional 130% of qualifying R&D expenditure is eligible for tax relief.
- Non SME companies, or companies that receive state aid for the R&D project, are potentially entitled to a 11% (2018) tax credit on R&D expenditure.





## R&D tax saving example

- For example, normally a company with £100,000 of taxable profits would have a £19,000 tax charge.
- If within this, £40,000 of qualifying R&D expenditure was incurred an additional £52,000 is eligible for tax relief.
- This will result in a corporation tax saving of £9,880.



## R&D tax credit - SME

- Available at 14.5% for SME companies (who have a qualifying R&D project) who have made a taxable loss.
- Loss available is the lower of the taxable loss or total R&D expenditure.
- For example, a company with a £100,000 tax loss (and incurred £150,000 of qualifying R&D expenditure) is entitled to a tax credit of £14,500.
- The alternative would be not to claim the tax credit and carry the loss forward, which would create a £19,000 tax saving.
- Trade off between instant tax repayment and long term tax saving.



## Our R&D experience

- We have had a great deal of success in making R&D claims for clients of different sizes and a range of business sectors.
- A number of claims have been made using the assurance facility. This means the claim is scrutinised by a HMRC inspector before the formal claim is submitted.
- We have successfully claimed relief on over £3.3M of additional expenditure for our clients ranging from software development, engineering products and nutritional drinks to growing chili plants.
- This has resulting in tax savings of just over £600,000.

## Research & Development tax relief



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