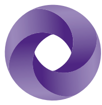

Grant Thornton

An instinct for growth™

Tax newsletter

Issue 1 · Quarter 1

Spring Budget 2017

Personal tax planning

Finance cost restrictions

Let property campaign

UK corporate tax

VAT - Brexit

2016/2017 expense and benefit reporting

Cross-border workers

Peter Legge
Partner, Tax
T +44 (0)28 9587 1081
E peter.legge@ie.gt.com

Offices in Dublin, Belfast, Cork, Galway, Kildare, Limerick and Longford.

www.grantthorntonni.com

@GrantThorntonNI

Spring Budget 2017

Philip Hammond, Chancellor of the Exchequer, delivered his Spring Budget on 8 March 2017. Much of the focus was on economic stability and investing for the future as the UK prepares for negotiations to exit the EU. The Chancellor's Budget aims to provide a strong and stable platform for those negotiations.

At a local level the Budget provides a welcome boost for Northern Ireland, with the announcement of £120 million additional funding, £90 million for day-to-day spending and £30 million for capital.

Some of the key highlights from the Spring Budget include:

- a reduction in the tax free dividend allowance from £5,000 to £2,000 from April 2018;
- confirmation that the personal allowance will increase to £11,500 by April 2017 and will continue to increase to £12,500 by 2020/21;
- consultation to redesign 'rent-a-room relief' to support longer-term lettings;
- a delay in the reduction to the stamp duty land tax filing and payment window from 30 days to 14 days until 2018/19;
- the government will delay the introduction of tax digital reporting until April 2019, for unincorporated business and landlords with turnover below the VAT threshold to provide them with more time to prepare for digital record keeping and quarterly reporting;
- confirmation that corporation tax will be reduced to 17% by 2020;
- an increase in the entry threshold for cash basis accounting to £150,000 with effect from 6 April 2017 and the exit threshold to £300,000. This will apply to self-employed, partnerships and individuals with trading income. They will have the choice to use the simplified cash basis of calculating taxable profits. The cash basis also extends to unincorporated landlords;
- the government will make administrative changes to Research and Development (R&D) expenditure claims, to increase certainty and simplicity around claims;
- legislation will be amended to ensure that, all profits realised by offshore property developers trading or developing land in the UK (including those on pre-existing contracts entered into prior to 5 July 2016) where the disposal is after 5 July 2016 are subject to UK tax. This will be irrespective of the residence of the person making the disposal; and
- removal of the ability of businesses to convert capital losses into trading losses via appropriations to trading stock, with effect from 8 March 2017.

Personal tax planning

With the 2016/17 tax year end deadline (5 April 2017) fast approaching there is still time to review your tax affairs and ensure you are making the most of tax allowances available and tax reliefs. At the same time you can plan for the year ahead. Tax rates, allowances and rules often change so it is worthwhile to review your affairs each year.

We have provided a summary below of some areas you might want to consider:

- open an Individual Savings Account (ISA) account. It is an effective way to shelter income and capital gains from tax. The ISA allowance for 2016/17 is £15,240, increasing to £20,000 in 2017/18. If you do not use your ISA allowance each year it is lost;
- use your pension allowance. Contributions to the pension scheme will receive tax relief at 20%-45% depending on your marginal rate of tax and subject to the available pension annual allowance;
- in view of the changes announced to the dividend allowance with effect from April 2018, review your dividend income and consider balancing your stocks and shares portfolio with your spouse;
- if you are intending to sell assets standing at a gain, consider transferring to your spouse tax free to benefit from the second annual exemption when the asset is sold. Also consider staggering your disposals either side of 5 April 2017 to maximise annual exemptions, currently £11,100 for 2016/17;
- review residential property income and expenses, if applicable, to determine how the new finance restriction costs will affect you. You may want to consider restructuring your tax affairs;
- consider Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS) investments to obtain income tax relief and deferring capital gains on the sale of an asset within the last three years;
- giving cash or other assets away. Each individual has an Inheritance Tax (IHT) free allowance of £3,000 each tax year. If you did not use your allowance during the prior tax year it can be carried forward one year and used in the current tax year, meaning you could make a gift exempt from IHT up to £6,000. You can also make gifts up to £250 to any one individual each tax year IHT free;
- review your will and update if necessary to reflect your current circumstances and assets owned taking into account changes to residential property nil rate band; and
- consider if you are affected by the new deemed domicile rules that take effect from April 2017.

We recommend you speak to one of our tax advisers to discuss any of the above or other planning opportunities that may be applicable to your particular circumstances.

Finance cost restriction for residential landlords

From April 2017, tax relief for finance costs on residential letting properties is changing. Presently, mortgage interest can be offset in full when arriving at the taxable net profit meaning relief is provided at a taxpayers' marginal rate of tax (20%/40%/45%). However, phased in changes will mean that by April 2020 tax relief on finance costs will be restricted to basic rate tax.

UK resident landlords with residential properties in the UK, overseas, held via a partnership or trust structure, along with non-UK resident landlords with let UK residential property will all be hit by the changes.

Consider for example, a higher rate taxpayer with rental income of £10,000 and mortgage interest of £8,000. Under the current regime, one will be assessed on £2,000 of net profit. That's a tax bill of £800 and cash in hand of £1,200.

By April 2020, the tax liability will be £2,400, a huge rise of £1,600 and an after tax loss position of £400.

Options are available to mitigate the rise in tax, such as transferring property to a spouse with unused allowances and available basic rate band or to a company, as companies are unaffected by the changes. However careful planning is required as a transfer of property may trigger capital gains and/or Stamp Duty Land Tax (SDLT) charges. Do these changes affect you?

Let Property Campaign

For many individuals leading a busy life or running their own business it is easy to fall behind with their tax affairs or overlook matters such as failing to report income. The Let Property Campaign (LPC) is aimed at residential property landlords with undisclosed letting income. The campaign enables landlords to make a voluntary disclosure and settle their tax affairs on better terms than those who wait until HMRC come to them.

HMRC are currently increasing their targeted compliance activity across all landlord types to start identifying who may not have declared all their rental income. Where additional taxes are due HMRC will charge higher penalties than those under the LPC. Penalties could be up to 100% of the unpaid tax or up to 200% for offshore related income, depending on the circumstances.

UK corporate taxation - competitive regime, but many changes to consider

The UK government's ambition is for the UK to be the best place in the world to start and grow a business. The Chancellor stated in his recent budget speech that the UK has the most competitive corporate tax regime in the G7 and is determined that remains the case. At the same time the regime needs to be such that people do not use corporate vehicles to simply reduce tax.

A number of pre announced changes to corporate tax come into effect from 1 April 2017 and include the following.

Corporation tax rate

Maintaining its move to make the UK more competitive, corporation tax will be reduced to 19% from April 2017 and to 17% from April 2020.

Northern Irish businesses may benefit from a reduced rate of 12.5% from 1 April 2018, subject to the Northern Ireland Executive agreeing a sustainable budget with Treasury.

Corporation tax loss relief

Companies and groups will benefit from more flexibility on how they offset losses brought forward. They will be able to use these losses against profits from different sources of income and against profits of other group companies. (On the other hand for those groups who have profits over £5 million, only 50% of the current profits will be eligible to be offset by brought forward losses.)

Patent box

New provisions will be introduced to ensure that there is no advantage or disadvantage for situations where Research and Development (R&D) is undertaken by two or more companies under a cost sharing arrangement.

Substantial shareholdings exemption

The exemption from corporation tax for certain disposals of at least 10% shareholdings in other companies will be simplified. Removing the requirement that the investing company carries on a trade and providing a more comprehensive exemption for companies owned by qualifying institutional investors.

Corporate interest deduction

In a bid to keep tackling aggressive tax planning by multi nationals there will be a restriction on the tax deductions that large groups can claim for their UK interest expense. Deductions will be restricted where a group has net interest:

- expenses of more than £2 million;
- expenses exceeding 30% of UK taxable earnings; and
- to earnings ratio in the UK that is greater than that of the worldwide group.

VAT – Brexit

The recent publication of the White Paper setting out the UK government's plans for leaving the EU, restates the 12 principles that Theresa May, Prime Minister, set out in her Lancaster House speech.

These include:

- strengthening the union – they will secure a deal that works for the entire UK – for Scotland, Wales, Northern Ireland and all parts of England. The government will remain fully committed to the Belfast Agreement and its successors;
- protecting the strong and historic ties with the Republic of Ireland and maintaining the common travel area – they will work to deliver a practical solution that allows for the maintenance of the common travel area, whilst protecting the integrity of the immigration system which protects the strong ties with Ireland;
- ensuring free trade with European markets – they will forge a new strategic partnership with the EU, including a wide reaching, bold and ambitious free trade agreement and will seek a mutually beneficial new customs agreement with the EU;
- securing new trade agreements with other countries – they will forge ambitious free trade relationships across the world; and
- delivering a smooth, orderly exit from the EU – they will seek a phased process of implementation, in which both the UK and the EU institutions and the remaining EU member states prepare for the new arrangements that will exist between them.

Despite this welcome reclarification that the UK will be outside the single market and potentially the customs union, nothing really changes much for Northern Ireland's businesses.

With this in mind we have set out below the areas Northern Irish businesses should be thinking about and considering:

- reviewing their talent and workforce plans, considering options for lower dependency on EU workers;
- reviewing supply chain risks and opportunities, including foreign exchange rates and costs associated with being outside the single market and customs union;
- reviewing relations with key EU customers and suppliers;
- identifying new growth markets outside the EU;
- reviewing revenue forecast modelling, particularly in sectors that may depend on EU funding and may be subject to variable demand;
- assessing regulatory risk of being outside the single market and options for maintaining client offerings in the rest of the EU; and
- reviewing cost base and identifying possible cost reductions.

Whilst there is a Brexit context to these issues in practice they tend to be issues that businesses should keep under review at any time. In that sense Brexit is an external factor that impacts on planning business strategy and reviewing market conditions.

2016/17 expense and benefits reporting

As the 2016/17 tax year comes to an end, it is the perfect time for employers to review any expenses or benefits provided to employees in the tax year. There is evidence that HMRC is increasing its focus on employment tax compliance. As a result, employers need not only manage their tax risk internally but also demonstrate this to stakeholders, not the least of whom is HMRC.

What is form P11D reporting?
Employers are required to submit form P11D listing taxable benefits and expenses provided to directors and employees during the tax year.

Examples of typical Benefits in Kind (BIK)include:

- company car and/or car fuel benefits;
- private medical insurance;
- loans (over £10,000); and
- private use of company credit cards.

The deadline for the submission of forms P11D for the year ended 5 April 2017, is 6 July 2017.

The employer must also submit form P11D(b), which contains the employer's declaration and the calculation of class 1A NICs. There are potential penalties where the forms are submitted late or are inaccurate.

Have you considered a PAYE Settlement Agreement (PSA)?
A PSA is a voluntary agreement made between an employer and HMRC that enables the employer to settle tax liabilities arising on certain benefits in kind.

PSAs are typically used to settle the tax on incentives provided to employees (to avoid a negative impact) or business expenses met by the employer for which no tax relief is available. A PSA can cover a range of minor or irregular benefits.

If your business needs a PSA for 2016/17, an application must be made by 6 July 2017.

Cross-border workers

With Brexit around the corner, there is no better time for cross-border businesses to review existing practices and compliance for workers who travel throughout the island of Ireland to perform their duties. There are many complex rules and regulations which apply to cross border working and it is important that businesses get up to speed and ensure compliance.

Republic of Ireland employees working in Northern Ireland
When a Republic of Ireland employee comes to work in the UK, UK PAYE obligations arise from the day they arrive. In our experience, many employers are not aware of this and are not operating payroll correctly on overseas workers.

A good planning point is to apply to HMRC for a Short Term Business Visitor Agreement (STBVA), relaxing the payroll obligations for employees coming to the UK for up to 183 days (provided certain conditions are met). This should reduce the UK tax and administrative burden for the business.

Irish payroll: PAYE and social security (PRSI) operates as normal. The employee calculation is unaffected by the requirement to operate UK payroll.

UK payroll: If a STBVA applies, no UK payroll is required. If STBVA does not apply, UK payroll operates on a "shadow basis". Basically, this means that a calculation of UK workdays is made and the PAYE and social security (if any) is paid across to HMRC.

Social security: The employer may apply for an A1 certificate from the Irish Revenue which, on an individual basis, removes the need to operate social security (NIC) on UK payroll, so social security is only paid in the Republic of Ireland (PRSI).

Northern Ireland employees working in the Republic of Ireland
A recent change to the Republic of Ireland rules means that if a worker spends more than 30 days working in Ireland, employers will be required to operate Irish PAYE on their Republic of Ireland earnings.

UK payroll: PAYE and social security (NIC) operates as normal. The employee calculation is unaffected by the requirement to operate Irish payroll.

Irish payroll: Operates on a "shadow basis". Basically, this means that a calculation of Republic of Ireland workdays is made and the PAYE and social security (if any) is paid across to the Irish Revenue.
Social security: The employer may apply for an A1 certificate from HMRC which, on an individual basis, removes the need to operate social security (PRSI) on Irish Payroll, so social security is only paid in the UK (NIC).

Cash flow issues and appendix 5 agreement
Paying both tax authorities for the same employee has an obvious impact and this can get expensive.

An 'appendix 5 agreement' would reduce the impact on cash flow and demonstrate compliance. Broadly, it allows the UK payroll process to offset the Republic of Ireland tax, by restricting the HMRC payment by the amount already paid to Irish Revenue. The employer only pays the Republic of Ireland taxes once. The "magic" happens by way of a credit on the P32 when calculating the net liability to HMRC.

If you have cross border workers, you need to consider the implications and please speak to a member of our team now to find out more about an initial assessment and assistance with any UK or Republic of Ireland payrolls.

© 2017 Grant Thornton (NI) LLP. All rights reserved. Authorised by Chartered Accountants Ireland ("CAI") to carry on investment business.