The Construction Industry
Joint Taxation Committee

JTC

JTC NEWSLINE

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The last Autumn Statement - good news or bad?

The Chancellor announced that from now on he will issue his Budget in the Autumn so there may be 'Spring Statements' of how we are getting on, but the real work and major plans for measures to be implemented in a Finance Bill will be announced in the Autumn in future. This means a serious workload once a year with more time to get a Finance Bill together – no bad thing. Next year we will have two Budgets Spring and Autumn to get ourselves onto the new regime.

The major news for workload in Construction

Infrastructure and innovation investment
The Chancellor has prioritised investment in infrastructure, science and innovation and the digital economy in order to increase productivity. A new National Productivity Investment Fund will provide for £23 billion of spending between 2017-18 and 2021-22, targeted at housing, transport, digital communications, and R&D, including:

- £7.2bn to support the construction of new homes.
- £4.7bn to enhance the UK's position as a world leader in science and innovation.
- £2.6bn to tackle congestion and ensure the UK's transport networks are fit for the future.
- £0.7bn to support the market to roll out full-fibre connections and future 5G communications.
- £1.8bn will also be awarded to Local Enterprise Partnerships (LEPs) across England through a third round of Growth Deals, to improve transport connections, unlock house building, boost skills, and enhance digital connectivity. This is intended to give a direct boost to businesses in the construction, transport and communications sectors.

Company taxes

Reform of loss relief
The Statement confirmed that the proposed changes to the carried-forward tax loss relief rules will go ahead broadly as planned from April 2017. There are two principal measures:

- Tax losses arising after 1 April 2017 will be available for carry forward against profits from the company's other income streams and profits of other group companies.
- For profits arising after 1 April 2017, only 50% of group profit can be sheltered by carry forward losses (subject to a £5m profit de minimis).

Measures affecting businesses generally

Letting agent fees
The Government believe that letting fees charged by property agents should be borne by landlords. In order to improve competition in the private rental market, the Government intends to legislate to ban the charging of fees by letting agents to tenants. A ban on agents' fees is already in place in Scotland. It is likely that fees will continue to be charged by letting agents so the result is likely to be pressure from landlords for higher rents.

Business rates
The next revaluation for business rates in England, Scotland and Wales will take place in 2017. It was hoped that the Government would use the Autumn Statement to announce additional reliefs for those areas likely to be significantly disadvantaged. Instead, it has been announced that the rate of rural rate relief will be increased to 100% to match the rate of small business rate relief from 1 April 2017.

Insurance Premium Tax - standard rate rise
The standard rate of Insurance Premium Tax (IPT) is to increase with effect from 1 June 2017, from 10% to 12%.
This will result in the rate doubling from its October 2015 level of 6%. The 12% rate will apply to all premiums received on or after 1 June 2017.

Employment Taxes

Alignment of NIC and income tax
The Government has embarked on a review of how it can align NIC and income tax. As a first step, it has announced that the employer and employee NIC thresholds will be aligned from April 2017.
Both employers and employees will start paying NIC on weekly earnings above £157 – a rise of £1 and £2 respectively from the current tax position.

continued overleaf

Employment Taxes

Alignment of NIC and income tax (cont'd)

Employers pay NICs above the £157 threshold on an uncapped basis. Employees pay NIC at a rate of 12% between this threshold and an upper threshold (currently £827) and at a rate of 2% thereafter. This upper threshold will increase to £866 from April 2017 so employees will pay an additional £3.60 a week from 6 April 2017.
It is a simplification, but it will raise money for the Government.

Salary sacrifice

The Government will introduce changes to salary sacrifice arrangements from April 2017.
There is no change for benefits that the Government supports being offered in this way - pensions, childcare and cycle to work schemes.
Other benefits that are tax free such as health screening, workplace car parking and mobile phones for private use will, however, lose their tax free status if they are provided by salary sacrifice.
Employers will also have to pay Class 1A NIC on the benefit.
Arrangements already in place or implemented before April 2017 will however, not be impacted by these new rules until April 2018. There is also no change for the employees' NIC position on employer provided benefits that are provided via salary sacrifice – they remain outside the scope of employees' NICs.
One of the most popular salary sacrifice benefits is the provision of a company car. For any new cars provided under arrangements implemented after 5 April 2017, the car will be taxed on the higher of the tax due on the cash sacrificed to obtain the car, and the tax arising from the car benefit in kind charge.
For car arrangements already in place or implemented before 6 April 2017, it would appear cars provided before April 2017 will not be affected by the changes until April 2021. From then on, unless they choose a ULEV, there may be little tax and NIC advantage in participating in such an arrangement.

Employment tax simplification

The Government also confirmed a range of simplification measures. The first relates to the Pay as You Earn Settlement Agreement (PSA) process which will apply from the 2018/19 tax year onwards. Final details have yet to be released but the recent consultation proposed removing the need to agree a PSA in advance with HMRC and enabling digital PSA returns.
Legislation will also be released in Finance Bill 2017 to ensure an employee who wants to 'make good', on a non-payrolled benefit in kind will have to make the payment to their employer by 6 July in the following tax year. 'Making good' is where the employee makes a payment in return for the benefit in kind they receive. This reduces its taxable value. This will have effect from April 2017.

Something to watch

The Government will also publish the results of its consultation on employer-provided living accommodation which may herald a change in the way this benefit is taxed going forward. This may affect construction because we have workers living away from home.

Employment status

The changes announced for Personal Service Companies (PSCs) are restricted to the public sector at present but further measures regarding off-payroll labour may be introduced over the life of this parliament.
The recent decision in the Uber employment status case is one of a number of cases that will keep this issue in the spotlight. The Government also announced that it will extend its disguised remuneration legislation to cover arrangements used by the self-employed.

Individual Taxes

Personal allowance and basic rate band

The personal allowance will increase to £11,500 for 2017/18 (up from £11,000 in 2016/17). Similarly, the basic rate band will increase to £33,500 for 2017/18 (up from £33,000 in 2016/17). Therefore, an individual will be able to earn up to £45,000 of income in 2017/18 without paying higher rate tax.

Individual savings accounts (ISA) and a new national savings bond

The amount that an individual can save in an ISA every tax year will increase from £15,240 to £20,000 from 6 April 2017.
The ISA subscription limit includes the total amounts added to an ordinary ISA, the Help To Buy ISA and the new Lifetime ISA in the tax year. Separately, the annual subscription limit for Junior ISAs and Child Trust Funds is also set to increase on 6 April 2017 from the current limit of £4,080 to £4,128.
The Government will also introduce a new three year NS&I Investment Bond offering 2.2%. Individuals aged 16 and over may invest between £100 and £3,000 from spring 2017.

Pensions

The Government regards the tax reliefs offered on pension saving as generous so any suggestion that they are being abused is taken seriously: two measures were announced to address perceived abuses.
Under the current rules, contributions of up to £40,000 a year to an individual's pension funds obtain tax relief. There are restrictions on this amount for individuals with an annual income of over £150,000 and also for those aged 55 or over who have already accessed their pension fund via flexible drawdown. For this latter group, a Money Purchase Annual Allowance will be reduced to £4,000 from £10,000 of pension contributions.

continued overleaf

Autumn Statement update cont'd

Living and minimum wage increases

The Chancellor has announced that the 'Living' wage will increase by 30p to £7.50 per hour from April 2017. This is a 4.17% increase but annual increases in excess of 6% will be needed if the £9 per hour target is to be reached by 2020 as promised by the previous Chancellor.

The minimum wage rates were increased in October this year but will increase again from April 2017.

- £3.50 for apprentices.
- £4.05 for 16 to 17 year olds.
- £5.60 for 18 to 20 year olds.
- £7.05 for 21 to 24 year olds.

VAT - the flat rate scheme

The Flat Rate Scheme is a simplification that calculates the VAT payable simply by applying a set percentage to total UK income instead of a calculation on the basis of invoices issued and received.

A new percentage of 16.5%, much higher than most of the current percentages, will apply to a 'limited cost' business – defined as a business with expenditure on goods purchased for the purpose of the business in the relevant VAT period at less than 2% of its total turnover including VAT.

If a business uses annual accounting, it would be included if its purchases of goods were less than £1,000 per annum. Any capital expenditure, food, vehicles and fuel purchased by the business will not count toward the 2% threshold.

This change is likely to affect many labour-only contractors as well as consultants and other professionals. It will also affect a business that does not purchase many goods but buys in a large number of services from third parties.■

End of Autumn Statement update.

What is Making Tax Digital?

What is "Making Tax Digital" (MTD)? Sorry but it is so important that I will say something about it every month.

- Under MTD HMRC aims to join up its internal systems and so create one account for each taxpayer, for all their different taxes within HMRC.

⁕ Via their 'digital account' taxpayers will be able to view all their payments, and offset overpayments in one tax against underpayments in others.

- MTD imposes new quarterly filing and potentially payment obligations for businesses and landlords.

⁕ The first phase of MTD affects small unincorporated businesses and landlords.

⁕ The second phase is for VAT.

⁕ The third phase will affect companies, although not until 2020.

⁕ A new late filing and payment penalty system will apply to quarterly returns and annual declarations.

⁕ Although HMRC claims that the annual tax return will go, businesses will still need to prepare year end accounts in order to reconcile their quarterly payments and claim various reliefs and make accounting adjustments.

⁕ They will be required to file a year end declaration, instead of a Self Assessment (SA) return/ Corporation Tax (CT) return.

⁕ The key difference between the year end declaration and a tax return, other than in name, appears to be that HMRC will pre-populate some of the return figures, e.g. bank interest, income from employment, pensions, etc.

⁕ For the self-employed, it is assumed that HMRC might attempt to pre-populate the year-end declaration with data submitted in the quarterly return figures. This is unlikely just yet, and so as if already the case with VAT, a business will still need to reconcile their quarterly returns to their year-end accounts and so all must reconcile to the end of year declaration.

⁕ All taxpayers will need to check that pre-populated data is correct.

- HMRC is consulting on changing the way that tax assessments interact with accounting basis periods. Its systems may not cope if say 5 million taxpayers all pressing 'send' at once.

⁕ It is also reviewing simplification of cash accounting for businesses and landlords.

- Businesses that do not use smartphones, software or computers will be obliged to do so.

⁕ HMRC will not be providing free software.

⁕ MTD is likely to be expensive for many micro and small businesses. Some 2 million businesses are not represented by agents and they will have to learn the new systems.

- Some 1.3 nano businesses (turnover below £10k) will be exempt from the new regime.

⁕ They may be brought into the regime after a year.

- HMRC expects that apps will 'prompt' taxpayers when they purchase goods and services so that taxpayers will learn the tax deduction rules on a day to day basis.

- HMRC expects taxpayers to obtain their guidance online and not via the telephone. It will be developing online resources to reduce human interaction by telephone. ■

Making Tax Digital concerns

Members of 2 major accountancy bodies have expressed their concerns about HMRC's Making Tax Digital proposals in a survey conducted with their members.

Despite HMRC's protestations to the contrary, respondents make it clear that Making Tax Digital will place additional burdens upon taxpayers and their advisers, with significant numbers of their clients being forced to make the move to digital record keeping.

Key findings in the survey of CIOT and ATT members:

- 89% believe that the timeframe for implementing quarterly reporting should be extended to help businesses.
- 95% consider that compulsory digital record keeping and quarterly reporting will place an additional burden on their clients.
- 90% consider that compulsory digital record keeping and quarterly reporting will place an additional burden on their practice.
- 33% report that the vast majority (defined as at least 75%) of their clients will need to move from paper/hard copy accounting records to digital records.
- More than half of members thought that the vast majority of those clients will need help with moving to digital record keeping.
- 68% consider that the vast majority of their clients will need help with their MTD reporting obligations, including filing their quarterly updates with HMRC and completing their 'End of Year' activity.
- 87% have called for the £10,000 exemption from mandatory reporting responsibilities under MTD to rise. Some respondents suggested the VAT registration threshold of £83,000 is a better level. ■

Self Assessment Tax Returns

If you normally do a paper tax return but have not sent one in for 2015-2016 you must prepare to do it online. The deadline for paper returns was 31 October 2016 and if you send paper in now you will be penalised. If you complete an online return you have until 31 Jan 2017 so it is a no brainer. Sign up for online returns now. ■

Errors to Online CIS returns

HMRC have just agreed that the contact centres will accept up to 10 amendments by phone until April 2017. I understand that the majority of 3rd party providers have made changes to software to allow amendments of older returns or will have made them by April 2017. ■

If you have a query regarding any of the items featured in this issue of newsline please contact Liz Bridge.
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