



In this issue:

Tax allowances: use them or lose them

The last Autumn Statement

Voluntary contributions to your pension

Limits on pension contributions

A round-up of payroll

Tax allowances: use them or lose them

You can be late with a return or tax payment although the tax system may penalise you for doing so.

However, there are many instances where being just one day late will cost you the opportunity of claiming exemptions and reliefs. Therefore, with just a few months left until the end of the tax year, consider making use of the following before 5 April 2017 comes around.

Pension contributions: Making an additional pension contribution will be particularly beneficial if you have a high marginal income tax rate for 2016/17. Maybe you have income taxed at 40% or 45%, although the tax saving can be even higher if a contribution allows you to retain some or all of your personal allowance (income between £100,000 and £122,000), preserves a tax credits claim or means that you do not lose child benefit (income between £50,000 and £60,000). Of course, such planning is much easier if you have a regular income or if you already know your self-employed profit for 2016/17. But watch for the limits on pension contributions for people with high incomes.

ISAs: With low interest rates and the introduction of a personal savings allowance, cash ISAs may not be particularly attractive right now. However, for 2016/17, an innovative ISA is available, allowing you to shelter £15,240 of peer-to-peer lending, although there could be higher risks with these investments. The introduction of the dividend nil rate band has similarly removed much of the attraction of stocks and shares ISAs, but they could still be worth considering by investors who can save capital gains tax (CGT) at the higher 20% rate or have more than £5,000 of dividends. And don't forget the £4,080 that you can put into a junior ISA for each child or grandchild.

EIS and SEIS: Although both are high-risk investments, the risks are mitigated if you can benefit fully from the available tax reliefs. You could also invest in a professionally managed portfolio rather than in individual companies. With the SEIS, the combined income tax and CGT reliefs can save tax of up to 64%. A shareholding sold at a profit is tax-free and any loss should qualify for further tax relief. The deadline for 2015/16 is effectively 5 April 2017 because an investment made during the 2016/17 tax year can be carried back.

Venture capital trusts (VCTs): You can obtain 30% income tax relief by investing in VCTs. However, this is a longer-term



investment and like EIS quite high-risk – although the 20 to 80 different companies that a VCT typically invests in should give a good level of diversification. There is no carry back option with VCTs.

CGT exempt amount: Aim to use your exemption of £11,100 by making disposals. If you have already made gains of more than £11,100 this tax year, dispose of investments standing at a loss to create a tax loss that can be set against the gains. You can also establish a loss

by making a negligible value claim – no actual disposal is involved. 5 April 2017 is the deadline for backdating a claim to 2014/15. It might also be beneficial to dispose of further investments if gains will only be taxed at the new basic rate of 10%. Assets can be transferred between married couples and civil partners so that each can benefit from CGT planning. Although bed and breakfasting cannot be used to create a gain or loss by an individual, the same outcome can be achieved if the repurchase is by your partner or within an ISA.

IHT exemptions: Gifts up to £3,000 a year are exempt. If you have not used the exemption for 2015/16, you can make IHT-free gifts of up to £6,000 before 6 April 2017. Small gifts up to £250 per person in each tax year are also exempt from IHT.



The last Autumn Statement

The replacement of George Osborne as Chancellor by Philip Hammond has not brought about a significant change in tax policy, although it has heralded the end of Autumn Statements.

He also abandoned Osborne's target of ending the budget deficit in 2019/20, although this was largely an acceptance of the figures from the Office for Budget Responsibility (OBR). The emphasis was on increased infrastructure spending in an attempt to boost the UK economy following the Brexit vote.

Hammond confirmed that corporation tax would be reduced to 17% in 2020, with a 19% rate from 1 April 2017. These rates are lower than basic rate income tax and may tempt some sole traders and partnerships to incorporate, but care needs to be taken because there are many considerations in addition to the tax rate on profits.

Salary sacrifice schemes

The Chancellor also confirmed that the tax and national insurance advantages of most salary sacrifice schemes would be removed from April 2017, except for arrangements relating to pensions (including advice), childcare, cycle to work schemes and ultra-low emission cars.

Arrangements in place before April 2017 will be protected until April 2018, and arrangements for cars, accommodation and school fees will be protected until April 2021. It remains the case



that salary sacrifice schemes relating to pensions are ineffective in calculating 'adjusted income' for the purpose of tapering the annual allowance that limits contributions to pension plans.

One matter that attracted some attention was the confirmation that termination payments to employees of over £30,000, which are subject to income tax, would also be subject to employer's national insurance contributions. The government confirmed that tax would only be applied to the equivalent of an employee's basic pay if they have not worked their notice. The first £30,000 of a termination payment will normally remain exempt from income tax and national insurance contributions.

A new announcement was the reduction in the pensions money purchase annual allowance (MPAA) from £10,000 to £4,000. Individuals who have drawn any income from benefits under the pension flexibility rules are subject to a reduced annual allowance if they continue to pay into a pension scheme. The restriction is aimed at limiting pension income from being recycled as fresh, tax-relieved pension contributions. There may be some exemptions to the reduced allowance following consultation.

Voluntary contributions to your pension

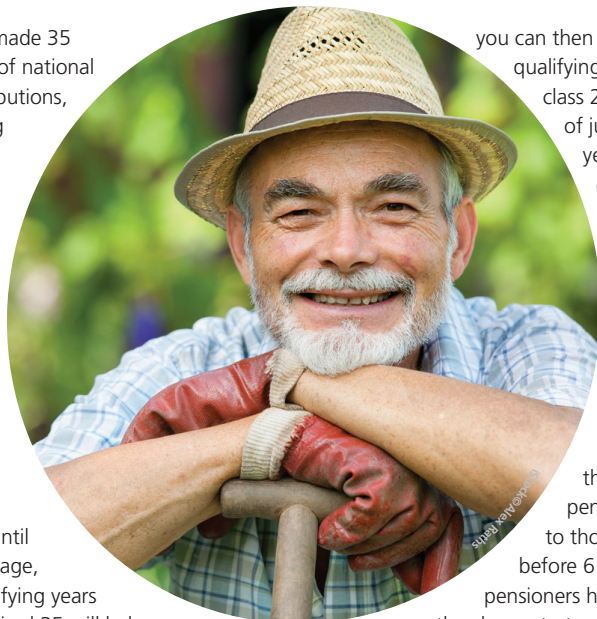
The full amount of state pension is currently £155.65 a week for those retiring after 5 April 2016, and it is generally an improvement over the old basic state pension.

You must have made 35 qualifying years of national insurance contributions, but there is a big catch. If you have been in 'contracted out' employment, you will have been paying a reduced rate of contribution and this will result in a deduction from the full pension. For anyone who keeps working until state retirement age, any further qualifying years beyond the required 35 will help rectify the situation.

However, there is also an attractive option for those retiring early, especially public sector employees retiring at 60. The idea is that you can pay voluntary class 3 contributions for each of the five or six years between retirement and reaching state pension age (65 or 66), reducing the amount of deduction. The current cost for each year of voluntary contributions may seem high at £733, but this could add £231 a year to your pension – not a bad return if you live well into your eighties or nineties.

Self-employment

You might decide to keep working on a self-employed basis after retiring, and currently



you can then obtain further qualifying years by paying class 2 contributions of just £146 a year. Class 2 contributions will be abolished from April 2018, with pension entitlement then coming from class 4 contributions.

Unfortunately, the new state pension is not paid to those who retired before 6 April 2016. Such pensioners have been given the chance to top up their pension entitlement by up to £25 a week, but the take up has so far been way below government expectations. If you wish to purchase a top-up, you only have until 5 April 2017 to do so. The extra income is for life and is inflation proofed; in most cases, your surviving spouse or civil partner will inherit between 50% and 100% of the income following your death.

Advice is essential, but in general terms, a top-up is worthwhile if you are in good health, do not pay tax at higher rates and have a younger partner who will inherit when you die. It is not quite so attractive for single people, although women have the advantage of a longer life expectancy – top-up rates are gender-neutral.



Spring 2017

Limits on pension contributions

Higher earners are now subject to tight limits on how much they can pay into tax-relieved pension schemes and it is essential to take care to avoid a substantial tax charge.

With the tax year coming to an end, this is a good time to review your pension planning. In particular, you should make sure you use up the less restrictive annual allowances for past years before you lose them.

The annual allowance: effectively limits pension contributions. The annual allowance is normally £40,000 if your 'adjusted income' is £150,000 or less, but is tapered down – by £1 for each £2 of excess income – to £10,000 for adjusted income of £210,000 or more. Adjusted income consists of all your taxable income before deducting personal allowances, plus the value of certain pension contributions during the tax year, including employer contributions.

If the input into your pension schemes is greater than the annual allowance, you may have to pay tax at your marginal rate on the excess. You will also not receive tax relief on any contributions you make over the allowance. Your pension provider should send you a statement if you go above your annual allowance, but if you are in more than one scheme, you will have to ask for statements from each.

Tapering the annual allowance started in 2016/17. The allowance was £50,000 in 2013/14, £40,000 in 2014/15 and £40,000 in 2015/16. Any unused allowance can normally be carried forward for up to three years. You can only use the annual allowance from earlier years after you have used the current year's annual allowance.

The lifetime allowance: could also cause you to face a tax charge if you exceed it. The lifetime allowance is £1 million in 2016/17, reduced from £1.25 million in 2015/16. Tax – at 25% on excess benefits taken as income or 55% on a lump sum – will normally arise when you draw pension benefits. If the value of your pension benefits is approaching £1 million, you might have to stop contributing to the plan, or draw your pension early, because investment growth may push the value over the lifetime allowance in future.

With the lower annual and lifetime allowances it is more important than ever that you take professional advice and we are here to help.

A round-up of payroll

If you are not using HM Revenue & Customs' (HMRC) payrolling benefits in kind service for 2016/17, you need to register online before 5 April 2017 if you want to use it for 2017/18.

It is advisable to register as soon as possible as you will not be able to register after the start of the tax year.

You can choose which benefits to payroll, but once the tax year has started you will have to continue to payroll those benefits for the whole of the year – unless you stop providing them. HMRC will amend the tax codes for those employees receiving payrolled benefits. Any employee who does not want their benefits to be payrolled can be excluded.

Three-day grace period

HMRC can charge you penalties on a monthly basis if your real time PAYE submissions are late. There is no penalty for the first month in a tax year for which you make a late submission, but after that there may be a monthly late filing penalty depending on how many employees you have. This ranges from £100, for one to nine employees, to £400 if you have 250 or more employees.

HMRC has until now given you an extra three days to make submissions before applying a penalty. However, this three-day grace period



is a concession and is due to end on 5 April 2017. Although HMRC has been reviewing its approach to charging penalties, you will need to take care that you file next year's returns on time.

Automatic enrolment penalties

The Pensions Regulator has reported a huge rise in the number of fines for not complying with automatic enrolment requirements. That is perhaps not surprising given that it is now the turn of smaller employers. Most employers with fewer than 50 employees have to automatically enrol them by 1 April 2017. Penalties can be substantial, with even the very smallest of employers facing a daily penalty of £50 if they ignore a 28-day warning notice. If you have between 5 and 49 employees, the daily penalty is £500.

Auto-enrolment is not something you can leave to the last minute. There are some key dates for completing various tasks. Illness or being short-staffed are not accepted as reasonable excuses for non-compliance.

We can help with any queries.

The gig economy: reining in a giant

It's been hard to miss the news coverage given to the tribunal decision on the employment rights of Uber drivers.

The self-employed drivers argued that they should be treated as employees, wanting entitlement to the national minimum wage, holiday pay and sick pay.

The decision, if it stands, only applies to the Uber drivers involved in the case, but it would mean Uber having to amend contracts for all 40,000 drivers in the UK. The ramifications could extend throughout the so-called gig economy, to groups such as self-employed delivery drivers, food couriers, builders and even hairdressers. But it would depend on the working conditions in each case and whether workers want to be treated as employees.

Uber argued that it is a technology company rather than a taxi provider, and that its drivers are independent self-employed contractors who use the technology to make money. The company does not own a single vehicle. However, the tribunal dismissed as ridiculous the claim that it simply linked thousands of small businesses through a technology platform.

Many of the facts do support a case for self-employment. Uber drivers provide their own

vehicles, pay for all the related costs (such as private hire insurance), are permitted to work independently or for other companies, do not wear an Uber uniform and are free to accept work only when they want to by turning the Uber App on or off.

However, when the Uber App is turned on, the relationship was considered to be one of employment, with drivers generally having to accept most of the work offered to them. Drivers do not know the name of passengers, do not know the destination until a journey begins, have little control over the route, have no control over the fee charged, do not collect the fee and are discouraged from accepting tips. Uber, rather than the driver, accepts the risk of any financial loss and deals with passenger complaints. The company exerts considerable control over drivers, even going as far as accepting only a limited choice of permitted vehicles.

Uber has downplayed the decision and will be taking the case to the employment appeal tribunal. There could then be further hearings in the court of appeal and the supreme court.

Hall Morrice LLP

6 & 7 Queens Terrace
Aberdeen AB10 1XL
Tel 01224 647394
Fax 01224 639541
E-mail accounts@hall-morrice.co.uk
Web www.hall-morrice.co.uk

Partners

Hugh H Hall C.A.
Shonagh L Fraser C.A.
Anne R Hall C.A.
Robert J C Bain C.A. C.T.A.
Derek J Mair F.C.C.A.

Directors

Stuart F Gordon F.C.C.A.
Stuart M Watson F.C.A.
C.T.A. T.E.P.
Derek J Petrie C.A.
Michael I Innes MCIBS

Hall Morrice LLP is a limited liability partnership registered in Scotland number SO303198 with its registered office at the above address. Registered to carry on audit work in the UK and regulated for a range of investment business activities by The Institute of Chartered Accountants of Scotland.