NEWSLETTER FEBRUARY 2016

HELP WITH AUTO ENROLMENT

With auto enrolment pensions staging dates growing ever nearer for small businesses, please make sure we have sight of any correspondence you receive from the Pensions Regulator in order that we can help you throughout the process.

For more information or help please contact Rachel on 01229 588077 or rachel.akister@jfhornby.com.

SCOTTISH INCOME TAX RATES AND SCOTTISH BUDGET

From April 2016, the Scottish Parliament will have the power to set its own rate of income tax to fund spending by the Scottish government. The rate will be set in the Scottish Budget on 16 December and we will update you on pertinent announcements.

Those who are resident in Scotland will pay two types of income tax on their non-savings income. The main UK rates of income tax will be reduced by 10p for Scottish taxpayers and in its place the Scottish Parliament will be able to levy a Scottish Rate of Income Tax (SRIT) applied equally to all Scottish taxpayers. If the SRIT is set at 10p then income tax rates will be the same as in the rest of the UK. SRIT can however be reduced to zero and there is no upper limit.

The Scottish Rate of Income Tax doesn't apply to income from savings such as building society interest or income from dividends. Tax on this income will stay the same for all taxpayers across the UK. It also doesn't affect income tax thresholds and allowances, which will continue to be set by the UK government.

The definition of a Scottish taxpayer is based on where an individual lives in the course of a tax year. Scottish taxpayer status applies for a whole tax year. It is not possible to be a Scottish taxpayer for part of a tax year. HMRC will identify those individuals who will be Scottish taxpayers based on their records of where individuals live. In early December HMRC started to write to potential Scottish taxpayers to confirm that the address held in their records is correct. If it is, taxpayers will need to take no further action. Those paying the new rate will see their tax code prefixed by an 'S' and their income tax will continue to be collected from pay and pensions in the same way as it is now.

AUTUMN STATEMENT 2015 – KEY ANNOUNCEMENTS FOR PARENTS

Reversal of most of the tax credit proposals

A number of changes to tax credits and Universal Credit were announced in the July Budget but the Chancellor has scrapped some of the changes following a defeat of the proposals by the House of Lords. The government has confirmed that:

- The rate at which a tax credit claimant's award is reduced as each pound of their income exceeds the income threshold (known as the taper rate) will remain at 41% of gross income from April 2016.
- The level of income at which a claimant's tax credit award begins to be tapered away (known as the income threshold), will remain at £6,420 per year from April 2016. Claimants earning below this amount will retain their maximum award.
- The income rise disregard in tax credits will reduce from £5,000 to £2,500. This is the amount by which a claimant's income can increase in-year compared to their previous year's income before their award is adjusted.

Changes to the prospective Tax-Free Childcare scheme

Under the scheme, which is expected to launch in 2017, the relief will be 20% of the costs of childcare up to a total of childcare costs of £10,000 per child per year. The scheme will therefore be worth a maximum of £2,000 per child (£4,000 for a disabled child).

The government has announced changes to the conditions to qualify for Tax-Free Childcare. All parents in the household must:

- meet a minimum income level based on the equivalent of working 16 hours a week at the National Living Wage (increased from eight hours at the National Minimum Wage)
- each earn less than £100,000 a year (reduced from £150,000), and
- not already be receiving support through tax credits or Universal Credit.

The Chancellor of the Exchequer, George Osborne, has announced that the government will publish its next Budget on Wednesday 16 March 2016.

AUTUMN STATEMENT 2015 – KEY ANNOUNCEMENTS FOR EMPLOYERS AND COMPANY CAR DRIVERS

Retaining the 3% diesel supplement for company cars which was to be abolished

The scale of charges for working out the taxable benefit for an employee who has use of an employer provided car are now announced well in advance. Cars are taxed by reference to bands of CO_2 emissions. From 6 April 2015 the percentage applied by each band went up by 2% and the maximum charge is capped at 37% of the list price of the car.

From 6 April 2016 there will be a further 2% increase in the percentage applied by each band with similar increases in 2017/18 and 2018/19. For 2019/20 the rate will increase by a further 3%. It had been expected that the 3% diesel supplement would be removed from 6 April 2016, however this 3% differential will now be retained until April 2021. This is a blow to diesel car drivers who were expecting to see their car benefit reduce from April 2016.

The introduction of an apprenticeship levy

The government will introduce the apprenticeship levy in April 2017. It will be set at a rate of 0.5% of an employer's paybill, which is broadly total employee earnings excluding benefits in kind, and will be paid through PAYE. Each employer will receive an allowance of £15,000 to offset against their levy payment. This means that the levy will only be paid on any paybill in excess of £3 million.

AUTUMN STATEMENT 2015 – KEY ANNOUNCEMENTS FOR BUY TO LET LANDLORDS AND THOSE WITH SECOND HOMES

Higher SDLT on purchases of additional residential properties

Higher rates of SDLT will be charged on purchases of additional residential properties (above £40,000), such as buy to let properties and second homes, from 1 April 2016. The higher rates will be three percentage points above the current SDLT rates.

The higher rates will not apply to purchases of caravans, mobile homes or houseboats, or to corporates or funds making significant investments in residential property. The government will consult on the policy detail, including whether an exemption for corporates and funds owning more than 15 residential properties is appropriate. The Chancellor stated that '*more and more homes are being bought as buy to lets or second homes'* and *'frankly, people buying a home to let should not be squeezing out families who can't afford a home to buy'*.

No mention was made by the Chancellor on the position in Scotland. It is the Scottish Government which sets the rates for the equivalent tax on property – the Land and Buildings Transaction Tax.

The introduction of a payment on account of any CGT due on the disposal of residential property

From April 2019, a payment on account of any CGT due on the disposal of residential property will be required to be made within 30 days of the completion of the disposal. This will not affect gains on properties which are not liable for CGT due to Private Residence Relief.

Currently, CGT is not payable on a disposal of an asset until 31 January following the tax year in which a disposal is made. So a disposal made on the 6 April 2016 will not result in a tax bill until 31 January 2018.

This measure is another blow for buy to let landlords.

ADVISORY FUEL RATES FOR COMPANY CARS

New company car advisory fuel rates have been published which took effect from 1 December 2015. The guidance states: *'You can use the previous rates for up to one month from the date the new rates apply'*. The rates only apply to employees using a company car.

The advisory fuel rates for journeys undertaken on or after 1 December 2015 are:

Engine size	**Petrol**
1400cc or less	11p
1401cc - 2000cc	13p
Over 2000cc	20p

Engine size	**LPG**
1400cc or less	7p
1401cc - 2000cc	9p
Over 2000cc	13p

Engine size	Diesel
1600cc or less	9p
1601cc - 2000cc	11p
Over 2000cc	13p

Please note that not all of the rates have been amended so care must be taken to apply the correct rate.

Other points to be aware of about the advisory fuel rates:

- Employers do not need a dispensation to use these rates. Employees driving employer provided cars are not entitled to use these rates to claim tax relief if employers reimburse them at lower rates. Such claims should be based on the actual costs incurred.
- The advisory rates are not binding where an employer can demonstrate that the cost of business travel in employer provided cars is higher than the guideline mileage rates. The higher cost would need to be agreed with HMRC under a dispensation.

If you would like to discuss your car policy, please contact us.

‘PAYROLLING’ BENEFITS IN KIND

From April 2016 the government is introducing a voluntary framework to allow employers to payroll most employee benefits in kind (benefits) rather than report them at the end of the tax year on a form P11D.

In order to payroll benefits an employer will need to include a notional value for employee benefits as taxable pay in the regular payroll cycle. By doing this the income tax due on the benefits can be collected in real time.

Currently the tax due on employee benefits is collected through an adjustment to the employee’s tax code. The way that tax codes work means that HMRC try to collect the right amount of tax at the right time. However, when benefits start/stop or are changed there can be a delay in changing the tax code which may result in an employee under or over paying tax.

One of the advantages to employers is that if employees’ benefits are payrolled then forms P11D will not need to be completed. Payrolling is not possible for some benefits such as living accommodation, beneficial loans and credit vouchers and tokens.

HMRC have confirmed that there will be no change to the process for reporting and collecting Class 1A NICs. Employers will still need to complete a form P11D(b) after the end of the tax year and calculate and pay the 13.8% employer only liability.

Employers need to register for the new service by 5 April 2016 as HMRC cannot process changes in year. HMRC are advising that employers should ideally register before 21 December to avoid being sent multiple tax codes for employees.

Please contact us if this is of interest to you.

GUIDANCE ON USE OF ZERO HOUR CONTRACTS

The government has published guidance for employers on the use of zero hours contracts. The guidance sets out where zero hours contracts may be appropriate and also sets out alternatives and best practice.

The guidance gives examples of where zero hours contracts might be appropriate:

- new businesses, where demand might be fluctuating and unpredictable
- seasonal work, for example around Christmas
- employers needing cover for unexpected sickness in critical roles
- catering businesses using additional experienced staff when a special event is booked and
- a business testing a new service that they are thinking about providing, needing employees on an ad hoc basis.

DIVIDEND ALLOWANCE AND RATES OF TAX

Further details have been provided of the new rates of income tax on dividends and the new Dividend Allowance which will apply to dividends received on or after 6 April 2016.

The rates of income tax on dividends will be:

- 7.5% for dividend income within the basic rate band (ordinary rate)
- 32.5% for dividend income within the higher rate band (upper rate)
- 38.1% for dividend income within the additional rate band (additional rate)

There will also be a new Dividend Allowance of £5,000 where the tax rate will be 0% - the dividend nil rate. The Dividend Allowance applies to the first £5,000 of an individual's taxable dividend income and is in addition to the personal allowance.

Where an individual receives dividend income, from UK or non-UK resident companies, that would otherwise be chargeable at the dividend ordinary, upper or additional rate, and the income is less than or equal to £5,000, the dividend nil rate will apply to all of the dividend income. Where the dividend income is above £5,000, the lowest part of the dividend income will be chargeable at 0%, and anything received above £5,000 is taxed at the rate that would apply to that amount if the dividend nil rate did not exist.

In calculating the tax band into which any dividend income over the £5,000 allowance falls, savings and dividend income are treated as the highest part of an individual's income. Where an individual has both savings and dividend income, the dividend income is treated as the top slice.
The following example illustrates how the new Dividend Allowance and rates will work:

Patricia has a salary of £40,500 and dividend income of £7,000 in 2016/17. Her total income is therefore £47,500. The total of her personal allowance and basic rate band comes to £43,000. Therefore part of her dividend income would be taxed at the upper rate were it not for the operation of the new dividend nil rate.

So £5,000 will be taxed at 0% and £2,000 will be taxed at the upper rate of 32.5%

If you would like advice on how the new dividend rules will affect you please do get in touch.

NATIONAL LIVING WAGE – EMPLOYERS ADVISED TO GET READY

The Department for Business, Innovation and Skills (BIS) is advising employers to begin preparing for the introduction of the National Living Wage (NLW) which comes into effect from 1 April 2016. The rate is £7.20 an hour and applies to employees aged 25 and over.

Businesses are being advised to prepare early for the changes on 1 April 2016, when the new wage will become law, and make sure they follow these 4 simple steps:

- know the correct rate of pay - £7.20 per hour for staff aged 25 and over
- find out which staff are eligible for the new rate
- update the company payroll in time for 1 April 2016
- communicate the changes to staff as soon as possible.

Business Minister Nick Boles said:

'The government's new National Living Wage will provide a direct boost to over two-and-a-half million workers in the UK – rewarding and providing security for working people.'

'I am urging businesses to get ready now to pay the new £7.20 rate from 1 April 2016. With just under 4 months left, there are some easy steps employers can take to make sure they are ready.'

'By taking these measures, companies will be able to properly reward their staff and avoid falling foul of the law when it takes effect.'

Please contact us if you would like help with payroll matters.

SCOTTISH BUDGET – INCOME TAX AND LBTT

Income tax

The Scottish Government set out tax and financial plans for the future in their draft Budget on 16 December 2015. The Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy, John Swinney, announced that the Scottish Rate of Income Tax (SRIT) would be set at 10p in the pound for 2016/17. The effect of this is to ensure that Scottish Taxpayers will pay tax at the same rates as their counterparts in the rest of the UK, at 20%, 40% and 45%.

Income tax bands for the basic and higher rates are the same in Scotland as in the rest of the UK.

The Scotland Act 2012 granted the Scottish Parliament landmark new powers to set a separate annual rate of income tax for Scottish taxpayers. The Scottish rate of income tax (SRIT) comes into effect in April 2016 and represents a fundamental change to the UK tax system.

Land and Buildings Transaction Tax

As well as paving the way for the changes to income tax outlined above, the Scotland Act 2012 also resulted in the introduction of Land and Buildings Transaction Tax (LBTT) in Scotland from 1 April 2015. This replaces Stamp Duty Land Tax which applies in the rest of the UK. The draft Budget proposes changes to LBTT with the introduction of a LBTT supplement on purchases of additional residential properties, such as buy-to-let properties and second homes. This supplement will be 3 percentage points of the total price of the property for all relevant transactions above £40,000 and will be levied in addition to the current LBTT rates.

The Scotland Bill 2015 proposes the further devolution of additional tax and spending powers to the Scottish Parliament. The Scotland Bill 2015 is still subject to consideration and amendment by the UK Parliament.

NUISANCE CALL COMPANIES WARNED TO EXPECT MORE FINES

The Information Commissioner's Office (ICO) is warning companies making nuisance calls to expect more fines in 2016.

The ICO has reported that they imposed more than £1,000,000 worth of penalties for nuisance calls and text messages in 2015, and anticipates they will issue a similar amount in early 2016.

The fines issued in 2015 included:

- £295,000 of fines for companies offering call blocking or nuisance call prevention services
- an £80,000 fine to a PPI claims firm that sent 1.3 million text messages
- a £200,000 fine to a solar panels company that made six million nuisance calls
- a £130,000 fine to a pharmacy company that was selling customer details to postal marketing companies

In addition the ICO report that the fines related to nuisance marketing in 2015 amounted to £1,135,000. These included £400,000 fines for nuisance texts, £575,000 fines for nuisance calls and a £130,000 fine for selling customer records for marketing. Details of the businesses penalised and fined can be found by using the hyperlink.

Andy Curry, ICO Enforcement Group Manager, said:

'Nuisance marketing calls frustrate people. The law is clear around what is allowed, and we've been clear that we will fine companies who don't follow the law. That will continue in 2016. We've got 90 on going investigations, and a million pounds worth of fines in the pipeline.'

According to the ICO, PPI claims prompted the most complaints, followed by accident claims. Areas identified as emerging sectors for nuisance calls and texts included call blocking services, oven cleaning services and industrial hearing injury claims.

EXTRA 3% SDLT ON THE HORIZON FOR BUY TO LETS AND SECOND HOMES

The Chancellor announced in the Autumn Statement last November that he would be introducing new rates of Stamp Duty Land Tax (SDLT) on purchases of buy to let properties or second homes. An additional 3% SDLT charge will apply to the purchase of residential properties caught by the new rules and this change is expected to come into effect for completions on or after 1 April 2016. There is an exemption from the charges for transactions under £40,000.

In December the Scottish government announced a Land and Buildings Transaction Tax (LBTT) supplement on additional homes. A bill has been introduced in the Scottish Parliament to introduce similar changes to LBTT.

The government is currently consulting on how the rules will be implemented and in which circumstances they will apply. It should be noted that the proposed changes will significantly increase the SDLT and LBTT on the purchase of second homes.

The rules will also impact on those individuals who purchase a new home where they have yet to sell their current home. The higher SDLT and LBTT rates would be payable on the purchase of the second property although this additional tax may be refunded if the first property is sold within 18 months.

Please also do get in touch if you would like specific advice on how these rules will affect you and whether or not you should buy or sell before or after April 2016.

REPORTING PAYE INFORMATION 'ON OR BEFORE' PAYING EMPLOYEES

HMRC have announced that the relaxation which has permitted some employers with no more than nine employees to report their PAYE information for the tax month 'on or before' the last payday in the tax month, instead of 'on or before' each payday, is to be withdrawn from April 2016.

Guidance on the limited situations where pay details may be provided late can be found at www.gov.uk/running-payroll/fps-after-payday. If you would like any help with payroll matters please contact us.

NEW NATIONAL LIVING WAGE TO BOOST LIVING STANDARDS

The government is reminding employers that a new National Living Wage (NLW) is being introduced from 1 April 2016 and advising employers to get ready for this change.

The NLW rate will be payable to workers in the UK who are 25 or over. For workers currently being paid the National Minimum Wage (NMW) this will mean a 50 pence increase in their hourly earnings.

The government expects over a million workers in the UK aged 25 and over to directly benefit from the increase, which sees the current minimum rate of £6.70 increase by 50p. Many will see their pay packets rise by up to £900 a year.

Business Secretary Sajid Javid said:

‘The government believes that Britain deserves a pay rise and our new National Living Wage will give a direct boost to over a million people. We are building a more productive Britain and giving families the security of well-paid work.

This is a step up for working people, so it is important workers know their rights and that employers pay the new £7.20 from April 1 this year.’

The government has launched an advertising campaign to highlight the new wage. More details are available at: livingwage.gov.uk.

The government is encouraging employers to ensure they are ready to pay the new wage on 1 April 2016. As part of this, it has published a four-step guide for businesses on the living wage website, asking employers to:

1. Check you know who is eligible in your organisation.
2. Take the appropriate payroll action.
3. Let your staff know about their new pay rate.
4. Check your staff under 25 are earning at least the right rate of NMW.

HMRC will have responsibility for enforcing the new NLW in addition to the NMW.

For those not affected by the NLW the following NMW rates apply:

- £6.70: for 21s and over
- £5.30: for 18 to 20-year-olds
- £3.87: for under 18s
- £3.30: for apprentices (the rate applies to all apprentices in year 1 of an apprenticeship, and 16-18 year old apprentices in any year of an apprenticeship)

PENSIONERS ‘TO GAIN’ FROM NEW SINGLE TIER STATE PENSION BUT YOUNG PEOPLE ‘WORSE OFF’

A new single tier state pension is to be introduced for those reaching state pension age from 6 April 2016 onwards. According to research by the Department for Work and Pensions (DWP) many pensioners will receive a boost from the new single tier pension following its introduction from 6 April 2016.

Under the 'flat-rate' system, new pensioners could receive up to £155.65 per week, compared to the current state pension entitlement of £119.30.

The press release states:

‘The data shows the long-term impact of the new State Pension on people’s pensions, with 75% of people set to gain in the first 15 years.

The move to the new system will provide a boost to the State Pension for many women, with over 3 million women receiving an average of £11 more per week by 2030 as a result of the changes, – helping to address the gender inequalities that have persisted under the old scheme.’

To find out what your pension entitlement is visit www.gov.uk/state-pension-statement

APPRENTICES AND EMPLOYER NATIONAL INSURANCE

From 6 April 2016, if you employ an apprentice you may not need to pay employer Class 1 national insurance contributions (NICs) on their earnings up to £827 a week (£43,000 per annum). To be eligible for this relief the apprentice should be under 25 years old and be following an approved UK government statutory apprenticeship scheme.

If the apprentice meets the conditions, then the employer needs to have evidence to allow them to apply the relief, by adjusting the employee’s NIC category. The evidence required will be either

- a written agreement between you, the apprentice and a training provider, which meets the conditions, or
- in England and Wales, evidence that the apprenticeship receives government funding.

When the apprenticeship stops or the apprentice turns 25 you will need to start paying the relevant NICs. For full details visit the link below.
The relief does not apply to employee’s NICs, it is only the employer who benefits but the employee’s entitlement to social security benefits will not be affected.

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