

STATEMENT AUTUMN

On 3rd December 2014, the Chancellor of the Exchequer, George Osborne, announced the Autumn Statement which provides an update on the government's plans for the economy. We have summarised the key changes impacting small businesses...

Income Tax

The personal allowance was expected to increase to £10,500 from 2015/16. However, today's Autumn Statement announced it would increase by a further £100 to £10,600. Furthermore, the higher rate threshold for 2015/16 will increase in line with inflation for the first time in 5 years taking it to £42,385. These increases will be worth £120 to a typical basic rate taxpayer and £172 to a typical higher rate taxpayer.

Business Rates

Wales only

The Autumn Statement confirmed that agreement has been reached with the Welsh Government on full devolution of business rates policy. A fully devolved regime will be operational by April 2015.

England only

There were a whole raft of benefits announced in the Autumn Statement with regards to business rates:

- support for small businesses by extending the Small Business Rate Relief to April 2016; around 385,000 of the smallest businesses will continue to receive 100% relief from business rates until April 2016, with around a further 190,000 benefiting from tapering relief
- additional support for the retail sector by increasing the £1,000 business rates discount for shops, pubs, cafes and restaurants with a rateable value of £50,000 or below, to £1,500 in 2015-16, benefitting an estimated 300,000 properties

- The government will carry out a review of the future structure of business rates and will report its findings by Budget 2016
- support for all businesses paying business rates by extending the 2% cap on the RPI increase in the business rates multiplier to April 2016

However, please note that the government will change the rules so that alterations to rateable values can only be backdated to the period between 1st April 2010 and 1st April 2015 for alterations made before 1st April 2016, and appeals must be made before 1st April 2015.

Fuel Duty

The government announced it will freeze fuel duty, which will help mobile businesses and tradesmen.

Funding

£500 million has been pledged to small to medium sized businesses through the Enterprise Finance Guarantee Scheme, plus there has been a £400 million extension to the British business bank Enterprise Capital Funds scheme. There has also been an extension to the Funding for Lending scheme to boost bank lending to small to medium sized businesses. This is welcome news for small business owners seeking vital finance for growth, but we will watch closely to see how these measures are actually delivered.

Employers

Apprentices: As previously announced, employer's National Insurance will be abolished for under 21s earning less than the upper earnings limit from April 2015. The Chancellor has extended this to include apprentices aged under 25 from April 2016.

Small Business Summary 2014

In a day of surprise announcements, Chancellor George Osborne has released a raft of measures designed to help both small business owners and taxpayers.

Carers: The government will extend the annual £2,000 Employment Allowance for employer National Insurance to care and support workers. This will come into effect from April 2015.

Stamp Duty Land Tax (SDLT)

From 4 December 2014, SDLT rates will only apply to the part of the property price that falls within each band; similar to the structure of Income Tax. The effective rate of SDLT will rise steadily as property values increase; unlike the existing system where the amount of tax due jumps at the thresholds in a so-called "slab basis".

Transitional rules will allow buyers who have already exchanged on a home but not completed before 4th December 2014 to choose whether to pay SDLT under the existing or new rules.

ISAs

The 2015/16 ISA limit will be increased to £15,240. The Junior ISA and Child Trust Fund limits will both be increased to £4,080.

Research and Development Reliefs

The rate of Research and Development relief for Small and Medium Enterprises will increase from 225% to 230% from

1st April 2015. This means that for every £100 spent on qualifying costs the business will be able to claim an additional £130 against profits. There will however be new restrictions imposed on certain types of expenditure.

Tax reliefs when a sole trader or partnership business is transferred into a limited company

The government has today slammed the door on some of the tax reliefs that can be claimed when a sole trader or partnership transfers its business into a related limited company (also known as incorporation).

Usually, when an incorporation takes place, the individual(s) will be deemed to have sold the reputation and customer relationships of the business to the limited company. This is commonly known as goodwill. This is treated as a sale by the individual to the company, and depending on the value of this goodwill, the individual may have to pay Capital Gains Tax (CGT).

If CGT is due then previously the individual could claim Entrepreneurs' Relief, which means that the gain would be taxed at 10% rather than 18 or 28%. Entrepreneurs' Relief will no longer be available for incorporations that take place on or after 3rd December 2014.

The second major change relates to the tax relief that the company can claim in respect of the goodwill. Previously a company could claim Corporation Tax relief on the value of the Goodwill purchased, however this relief will not be available for incorporations taking place on or after 3rd December 2014.

Incorporation has historically been seen as a way for an individual to reduce their tax liabilities, however the changes announced in the Autumn Statement will cause many to rethink their options.

A summary reminder of the changes that have been confirmed prior to the Autumn Statement:



Transferable tax allowances for married couples & civil partners

From 2015/16, a spouse or civil partner who is not liable to income tax above the basic rate to transfer up to £1,050 of their personal allowance to their spouse or civil partner; provided that the recipient of the transfer is not liable to income tax above the basic rate.

New Childcare Scheme

A new childcare scheme will be introduced to support working families with their childcare costs. For childcare costs of up to £6,000 per year per child, support of 20% will be available. From the first year of operation, all children under 5 will be eligible and the scheme will build up over time to include children under 12. The new scheme offer will be phased in from Autumn 2015 as the current system of Employer Supported Childcare is phased out.

Capital Gains Tax

The Capital Gains Tax Annual Exemption Allowance will increase from £11,000 to £11,100 in April 2015.

VAT

Supplies of digital services From January 2015, changes will be made to the European Union (EU) VAT place of supply of services rules involving business to consumer supplies of digital services (broadcasting, telecommunications and e-services). The place of taxation will be determined by the location of the consumer, and digital supplies will be taxed at the VAT rate applicable in the consumer's member state. There

is no turnover threshold for this as there normally is for VAT registration. Consequently, all suppliers of digital services to consumers in the EU will need to register for VAT in their member state if they are not already.

Auto Enrolment

The law on workplace pensions has now changed and every employer must comply. UK employers have to automatically enrol their staff into a workplace pension if they meet certain criteria.

Auto Enrolment has been gradually phased in since October 2012 starting with the very large employers. But from April 2015, employers with around 50 employees or less will begin to reach their staging dates.

Prompt Payment Discounts

Historically, VAT has been accounted for on an invoice after a prompt payment discount has been applied.

However, from May 2014 the rules changed with regards to supplies of telecommunication and broadcasting services and VAT had to be accounted for on the original amount before the discount was applied. From April 2015, this change will be applied to all other supplies.

Corporation Tax

The Government will reduce the main rate of corporation tax from 21 per cent to 20 per cent from April 2015.

This means that the small profits rate will be unified with the main rate, so there will be only one Corporation Tax rate of 20 per cent.