Changes to dividend tax from 6th April 2016

From 6 April 2016 there are some considerable changes to the way in which dividends are taxed. Instead of receiving a 10% tax credit on all of the dividends paid out from a company, all taxpayers will be able to receive the first £5,000 of their dividend income at a new 0% tax rate.

It sounds like a tax benefit for shareholders, but...

Before 6th April 2016 every £100 in dividends received from a company was taken as the net figure received and actually £111.10 was included in the calculation together with a notional amount of £11.10 as tax paid. This tax credit was called "notional" because it could never be repaid. This measure was originally intended to redress corporation tax paid on company's profits before the dividend was paid out to the shareholder.

From 6th April 2016 the notional tax credit is abolished and the amount included in the individual's tax calculation is the actual amount received. So for every £100 received £100 is shown in the tax calculation, certainly this makes the calculation simpler! And UK residents will only pay tax on any dividends received over the £5,000 zero percent allowance - even simpler! However, the following rates of tax will apply to dividends received over the £5,000 zero percent allowance:

- 7.5% on dividend income within the basic rate band
- 32.5% on dividend income within the higher rate band
- 38.1% on dividend income within the additional rate band

This has a potentially detrimental effect on most shareholders in receipt of dividend income from basic rate through to additional rate taxpayers, unless the income is £5,000 or less, or any balance is covered by the new savings income allowance.

Top tip:

See how the dividend changes affect you! Ask for a dividend tax impact review to check if further tax may become payable, when it may be payable and let us review the ways we can help!

Corporation Tax: Rate to Fall

The CT main rate will reduce to 17% for the Financial Year beginning 1 April 2020.

Loans to Participators

Are you a participator? Why would you take a loan?

Broadly, a participator is an individual who has a financial interest in a company in terms of:

- the voting power, or
- share capital of the company, or
- rights to capital on winding up.

For example:

- a shareholder, or
- a director.

A director's loan account is the same as an overdrawn director's current account. Some directors may think that with the new rates of tax on dividends, a great way to pull money from their company is for the company to make a loan to them or for their director's current account to become overdrawn.

The budget 2016 specifically linked the tax charged on outstanding loans and overdrawn current accounts of directors to the new higher rate of tax charged on dividends. The result of this is that loans made by close companies on or after 6th April 2016 are charged tax at 32.5% on the loan or overdrawn amount outstanding 9 months after the end of the accounting period.

Top tip:

The most tax efficient way for a director or shareholder to extract any value from their company may have changed. Dividends and loans may result in a higher tax charge than in the past. We can help you to look at the most tax efficient method of extracting monies from your company, why not ask for a review?

We are here to help

We can help you by ensuring that you're aware of the changes that will affect you, your family and your business. To find out more about the ways that we can help you, do not hesitate to contact us.

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paylesstax 2016budgetedition

The 2016 budget was a tumultuous event for Chancellor George Osbourne. Here is a roundup of the implications of some of the measures announced, some of the changes taking effect on 6th April and some areas where we can help you to save tax!

Personal Tax Allowances

From 6 April 2016 the amount an individual can earn before paying tax will be £11,000 and earnings up to £43,000 will be at the basic rate of tax of 20%.

The Chancellor announced future increases in his budget for the year which starts on 6 April 2017 when the personal allowance will rise to £11,500 and the higher rate tax threshold will increase for residents of England, Northern Ireland and Wales to £45,000.

For those living in Scotland and paying the 40p rate of tax, the threshold will rise by the rate of inflation to £43,387 from April 2017.

Tax tip:

Always try to use your personal tax allowances and if you believe you may not be fully utilising these, then talk to us about the possibility of moving some of the allowances between married couples or civil partners. There are age criteria to be met in order to move allowances but let's look at the possibilities to see if there are other tax savings which can be made using allowances or by transferring income producing assets between married couples and civil partners.

Capital Gains Tax Rates - Fall

The basic rate of CGT falls from 18% to 10% and the higher rate of 28% falls to 20% for chargeable gains accruing after 6th April 2016. The rate for residential property remains unchanged at 18%.

Personal Savings Allowances

From 6 April 2016, a Personal Savings Allowance will be introduced. For a basic rate taxpayer savings income of £1,000 will be tax free, higher rate taxpayers will be able to earn up to £500. This allowance is not available for additional rate taxpayers. This equates to a rate of interest of 2% on a deposit of £50,000 for a basic rate taxpayer being paid free of tax!

Tax will no longer be deducted from interest earned on deposits in:

- bank and building society accounts
- accounts with providers like credit unions or National Savings and Investments (NS&I)
- interest distributions (but not dividends) from authorised unit trusts, open-ended investment companies and investment trusts
- government or company bonds
- most types of purchased life annuity payments

This new allowance has no impact on interest received from Individual Savings Accounts (ISAs).

Top tip:

HM Revenue and Customs (HMRC) are issuing PAYE code numbers to many who are in employment or are pensioners, estimating the taxable proportion of interest (after deducting the allowance). These figures are estimates and can be vastly inaccurate. If you believe a code number issued to you is inaccurate please speak to us. Whilst a PAYE code number is only a means of estimating the tax liability for the year, if it is collecting too much tax then it needs to be corrected.

Disclaimer: This pay less tax report is provided for clients of accountants and has been written for general interest. No responsibility for loss occasioned to any person acting or refraining from action as a result of the information outlined in this edition is accepted by the authors, ProActivTax, or any associated business. In all cases appropriate advice should be sought before making a decision. The content is correct as at 1st April 2016 ©.

ISA'S

The limit for 2016/17 is **£15,240.**

From April 2017 this will be increased to £20,000!

Two New Personal Tax Allowances

The budget announced that, from April 2017, there will be two new tax-free £1,000 allowances to cover income from the "sharing economy".

The first is for selling goods or providing services from occasional jobs.

People who make up to £1,000 from occasional jobs - such as sharing power tools, providing a lift or selling goods they have made - will no longer need to pay tax on that income. Potentially this could include hobby income, occasional selling of items on eBay, where there is no intention to trade but simply to sell on the goods or services produced.

The second allowance is to cover income from property you own. The first £1,000 of income from property - such as renting a driveway or loft storage - will be tax free.

Car Benefit

Every budget, since Gordon Brown announced some fundamental changes in 1999, has increased the level of taxable benefit due on company cars, to help protect the environment. Car benefit is calculated by reference to carbon dioxide emissions per kilometre and this is a way by which the government can encourage the use of low emission vehicles. The 2016 budget is no different and has increased the taxable benefit on the use of cars provided by employers for employees' business and private use.

Top tip:

If you currently have a company vehicle and are considering replacing this, buying your own vehicle, or would just like a review of what your car is actually costing you in terms of tax, then why not let us calculate the most tax efficient method of owning and running a vehicle?

Allowances for Plant and Machinery used in Enterprise Zones

Capital allowances give a business the ability to get tax relief against their taxable income for the costs of acquiring qualifying plant and machinery (P&M) assets.

Companies using P&M within a designated Enhanced Capital Allowance (ECA) site in an Enterprise Zone could benefit from 100% ECAs provided:-

- the P&M is used primarily within the designated sites,
- the expenditure is incurred in the eight years beginning with 1 April 2012, and
- the area in which the plant or machinery is to be used is an assisted area at the time that the expenditure is incurred.

Top tip:

If you are aware that you use P&M within an Enterprise Zone and are planning any further expenditure then why not chat to us about a possible claim for Enhanced Capital Allowances?

There are currently 44 Enterprise Zones in England, 7 in Wales and 4 in Scotland with a further 3 coming on line by 2020. Northern Ireland's first enterprise zone is due to be up and running later in 2016.

Employment Allowance

If you are an employer and you deal with your own payroll, then don't forget to fully utilise the employment allowance against the employer's national insurance contributions (NIC). This £3,000 deduction can be made from the total employer's class 1 NIC's from April 2016. This is done via your payroll software on the Employers Payment Summary (EPS). The deduction is made each time the payroll is run until the £3,000 is fully utilised, but can only be claimed once within your business... so if you have 2 or more PAYE schemes you must choose which one to have the allowance set against.

Most businesses can claim this allowance however it does not apply to employees who undertake personal, domestic or household duties (eg nanny, cleaner or gardener) and from 6th April 2016 sole director companies, where there are no employees other than the director, are excluded from claiming this allowance.

Top tip:

Have you considered outsourcing your payroll? With automatic enrolment and workplace pension's right around the corner, the employment allowance and sole director companies and the strains of real time information you may well benefit from passing these payroll worries over to a professional payroll team. Why not give us a call to see how we can help?

National Insurance charge on redundancy pay-outs above £30,000

Employers who make staff redundant from April 2018 will have National Insurance contributions to pay on pay-outs of termination payments above £30,000 where Income Tax is also due.

For people who lose their job, payments up to £30,000 are tax-free provided there is no contractual entitlement to receive this payment and no National Insurance is payable. This will remain unchanged.

Top tip:

Check your contract of employment. Confusion can arise if your contract of employment says you are entitled to a certain period of notice, but your employer says you can leave immediately and pays your wages for that period in one lump sum. Your employer might call this redundancy pay. However, this will not qualify for the £30,000 exemption as HM Revenue and Customs (HMRC) regard this simply as a payment of wages. Tax is due on this in the same way as on any other wage payments and your employer will deduct tax and NICs in the normal way. Any statutory redundancy payment to which you may be entitled is in addition to this payment in lieu of notice.

Class 2 National Insurance Contributions

Class 2 NICs which currently enable self-employed people to build up an entitlement to the State Pension and other contributory benefits will be abolished from April 2018. From that date the self-employed will only need to pay Class 4 National Insurance on their profits and these will be reformed so the self-employed can continue to build up their benefit entitlement.