- If only one parent is working. Both parents have to be working for the Childcare Account, whereas each parent can access the Voucher Scheme if they are working.
- The Voucher Scheme is delivered via Salary Sacrifice reducing net salary (see the article on Salary Sacrifice above) and for those where the Child Benefit has been withdrawn, Salary Sacrifice, which reduces salary, may make child benefit accessible once more.
- The Childcare Account is not available for parents paying the additional rate of tax, the Voucher Scheme is available to all parents.

Top tip:

Please ask us to check the best option for you and your family. If you are a director or employer who would like to know more about implementing a Childcare Voucher Scheme within your business please call us.

Pension withdrawal and the annual allowance

The ability to access accumulated pension pots at 55 years old has received much publicity in recent years but the pension freedoms given to individuals has caused an anomaly which the government plans to stem with rules which take effect on 6th April 2017.

At 55 years old, a tax free lump sum of 25% can be withdrawn from accumulated pension funds, but it has been possible to reinvest this back into the pension and receive tax relief on the amount reinvested.

For example
From a pension pot valued at £10,000, an individual could withdraw £2,500 tax free and then reinvest this with the addition of further tax relief, which for a basic rate taxpayer would amount to £500. This potential for double tax relief has been abated somewhat by the introduction of a cap of £4,000 on the amount which can be invested into pensions following the withdrawal of tax free cash.

Top tip:

Before investing into a pension why not ask your pension advisor to request an annual allowance review. If required we can support the advisor by calculating the remaining annual allowance available to you based on annual income and contributions already made.

Residence Nil Rate Band (RNRB)

From 6th April 2017, there is a new allowance in addition to the existing £325,000 Inheritance Tax (IHT) allowance which every individual can pass on following their death.

The allowance is available when the home or the share in the home is passed, on death, to direct descendants (children or grandchildren) and is also available where the deceased has previously downsized to a less valuable home, or sold or given away their home after 7th July 2015.

The allowance is available in full if the estate in total does not exceed £2 million. For estates worth in excess of £2 million the allowance is tapered away.

The allowance is to be phased in with an initial £100,000 allowance from 6th April 2017, which is increased by £25,000 per annum until it reaches £175,000 in 2020/21.

Top tip:

With the ability to pass the family home, up to a value of £1 million, to direct descendants, it remains relevant to plan for the tax liabilities arising on the remainder of your estate. Ask for a review of the potential IHT liabilities on your estate and a discussion about the possible ways to lessen the burden on your loved ones.

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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NI you see me, NI you don't!

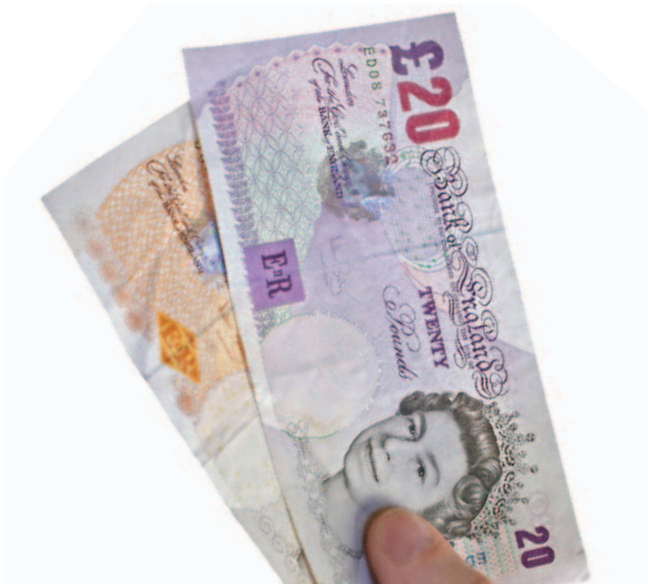
The Chancellor's much-publicised "U-turn" on his Spring Budget announcement of an increase in the National Insurance (NI) charge for the self-employed highlighted to the general public the considerable imbalance between the tax burdens of the employed (which includes company directors) and the self-employed.

The employed pay:-

- Income tax at 20%, 40% or 45% on their earned income,
- Class 1 NI at 12% on profits of over £8,164 and at 2% on profits over £45,000.

The self-employed pay:-

- Income tax at 20%, 40% or 45% on the profits of their trade, profession or vocation,
- Class 4 NI at 9% on profits of over £8,164 and at 2% on profits over £45,000,
- Class 2 NI at £2.85 per week on profits over £6,025. This is to be abolished in April 2018!



Philip Hammond's announcement of a rise in Class 4 NI to 10% of profits in 2018 and to 11% in 2019 would have, in theory, brought some degree of parity to the employed - v - self-employed divide, but this proposed measure was withdrawn by the Prime Minister on 15th March.

It is a little known fact that Class 4 NI contributions **do not** count towards any benefits at all, which would explain why we often hear these contributions being referred to as an "additional tax". It is the **Class 2 NI contributions** which give the self-employed an entitlement to contribution based benefits:-

- Maternity allowance
- Contribution based employment and support allowance
- Widowed parents allowance
- Basic state pension
- New flat rate state pension
- Bereavement benefits

But Class 2 NI is being abolished!

The former chancellor, George Osborne announced the abolition of Class 2 NI contributions in the 2016 Budget, but whilst he recognised that Class 4 NI would need to be reformed Mr Osborne failed to make the corresponding budget provision which would ensure the self-employed had a continued entitlement to benefits.

The increase in Class 4 NI contributions announced in the Budget on 8th March was Philip Hammond's rather clumsy attempt at making good this previous Budget omission, to ensure the self-employed could continue the upkeep of their contribution record.

What now for the self-employed and their benefit entitlement?

It looks likely that, in the Autumn Budget, the Chancellor will come back to the table with a proposal for ensuring the self-employed keep up their contributions and safeguard their benefits entitlement, prior to the abolishment of Class 2 contributions in April 2018.

If you are self-employed, your NI contribution record will be reviewed as you approach your retirement age, but it is never too early to review your contributions records to date and start to plan for the future.

- Will you have sufficient funds available to have the lifestyle of your choice in retirement? It is almost certain that the state pension will be sufficient to fund only the basics and any savings towards retirement done early will make retirement more comfortable.
- Are there sufficient credits in your contributions record for time taken away from the work place looking after children or relatives with ill health?
- What periods of time can new parents have away from the workplace following the birth of children?

Top tip:

Your contribution record will be a key to all of these entitlements, so, why not ask for a contributions check? We can check the information held about your contributions and support you in finding the best way to plan for the future.

Employed or Self-employed?

The 2017 Spring Budget brought into view areas of disparity in the UK's tax system for taxing earnings from work. One of these areas which has been under review for many years and by many governments are the rules for contractors.

For some years it's been argued that certain contractors are not self-employed, whether as individuals or through their own companies, but are in fact employees of the businesses they contract with and therefore should fall within the scope of PAYE.

The rules have changed for contractors working specifically under contract with Public Sector Bodies and some of these contractors will be surprised to find themselves paying PAYE tax and Class 1 NIC from 6th April 2017.

The new rules put the responsibility on the Public Sector Body to take the decision as to the employment status of the contractor. For ease, the contractor is being put "on the books". This may or may not be the correct decision based on the nature of the contract but could be an issue for a contractor if they do not challenge an incorrect decision. HM Revenue and Customs (HMRC) could potentially claim there are grounds to suggest the contractor had always been an employee and therefore prior years may be reviewed.

Top tip:

If you are a self-employed individual or work through your own Personal Service Company and are contracted to a Public Sector Body, you may wish to have your contract reviewed by one of our experts to ensure the nature of your contract is correct and your engagement can continue in its current form.

New Tax Allowances from 6th April 2017

Two new allowances will be available from 6th April 2017. The Trading Allowance and the Property Income Allowance will be set at £1,000 each and can be deducted from income in place of actual expenses.

Reduction in the Dividend Income Zero Rate Band

The dividend zero rate band has been called an allowance, but it is not an allowance; simply a zero percent rate band.

For 2016/17 the first £5,000 of dividend income is taxed at zero percent and the first tax payments to be made which will include this zero rate band will be the payments due in January 2018.

The change will result in many basic rate tax paying shareholders paying more tax. For example, a taxpayer with earnings from their company of £11,000 and £30,000 of dividends from their shareholdings would pay nothing for the tax year 2015/16 but will be due to pay £1,875 for the tax year 2016/17. This is the payment due in January 2018.

The Budget on 8th March reduced that dividend zero rate band down further to £2,000 from April 2018, adding a further £225 to the tax due.

Top tip:

If you have dividend income you will be affected by these changes. Ask for a projection of your liability for both tax years and what it will mean to you in January 2018 and 2019. We could also review the business structure to see what action can be taken to alleviate some of the extra burden.

Salary Sacrificed

There are new rules applying to Salary Sacrifice arrangements from April 2017 which will apply to new arrangements entered into after that date.

Under a Salary Sacrifice scheme, the employee gives up an amount of cash (salary or wage) and receives a benefit in return.

The benefit of a Salary Sacrifice until now is that both the employee and the employer saves on NI and the employee saves on tax.

From April 2017 only certain benefits can be taken under a tax efficient Salary Sacrifice scheme, these are:-

- Pension savings
- Employer provided pension advice
- Cycle to work schemes
- Ultra-low emission cars
- Childcare and childcare vouchers

If an arrangement has already been entered into by 6th April 2017 then there is a phased withdrawal of the Salary Sacrifice rules. The date where the Salary Sacrifice is no longer allowable is the earlier of the date on which the contract ends or April 2021 for cars, living accommodation and school fees or April 2018 for all other benefits.

Top tip: To prolong the tax efficiency of Salary Sacrifice arrangements, a contract should be entered into or renewed by April 2017.

Childcare

Parents of children aged under 1 year old are currently being invited to take part in the roll out of the new Tax Free Childcare Account. All parents will be invited to join by the end of 2017.

This move will be welcomed by the self-employed as it is the first time they have had access to tax incentivised childcare. However, for employed parents the decision to take up the account is a complex matter with nuances which may well leave parents out of pocket.

Particular attention should be given:-

- If you are claiming the childcare element of tax credits. Opening a Tax Free Childcare Account will immediately and irrevocably cancel this element of their claim.
- If you are already in receipt of childcare vouchers from your employer, you should consider the implications of opening an account. Once an account is opened and vouchers stopped, there is no way back into the voucher scheme.
- If you have older children. The account stops in the September following the child's 11th birthday.